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Print Edition September 29th 2007

On the cover
If the world acts in concert, the violence in Myanmar should be the last spasm of a vicious regime in its death throes: leader

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Politics this week

Sep 27th 2007
From The Economist print edition

EPA

After more than a week of mounting pro-democracy protests led by Buddhist monks on the streets of Yangon and other cities in **Myanmar**, the military government resorted to force. Many protesters were injured and several shot dead. Soldiers raided monasteries and detained hundreds of monks. Aung San Suu Kyi, the opposition leader, made her first public appearance in four years. She was in tears. Western leaders competed with each other to express support for the protests. China and Russia said they were an internal matter. See article

The Liberal Democratic Party and the lower house of the Diet (parliament) chose Yasuo Fukuda as **Japan's** prime minister. The 71-year-old son of an earlier prime minister, Mr Fukuda said he had drawn the short straw. See article

China cancelled talks with Germany's justice minister in protest at a meeting Chancellor Angela Merkel held with the **Dalai Lama**, Tibet's exiled spiritual leader.

American officials expressed concern at the detentions by **Pakistan's** security forces of hundreds of political activists. The detentions seemed intended to prevent protests against the planned re-election on October 6th of General Pervez Musharraf as president for a further five-year term.

India's ruling Congress party elected Rahul Gandhi, son of its leader Sonia Gandhi, as a general secretary. The promotion increased speculation that Mr Gandhi will follow his father, grandmother and great-grandfather in becoming prime minister. See article

Don't ask

After much debate, the cabinet and the main political parties in **the Netherlands** have decided not to hold a new referendum on the European Union's reform treaty. Dutch voters overwhelmingly rejected the treaty's predecessor, the draft EU constitution, in June 2005.

Russia's president, Vladimir Putin, picked a new cabinet to serve under his prime minister, Viktor Zubkov. Most senior ministers kept their jobs, but the economics minister, German Gref, was replaced by Elvira Nabiullina.

A bomb went off in Pristina, the capital of **Kosovo**, killing two people, just before the first round of fresh talks between Serbia and Kosovo's Albanians began in New York. The talks are supposed to finish by December 10th. See article

The new **French government** unveiled a budget for 2008 that includes tax cuts and other measures designed to boost growth. But the budget deficit, forecast at 2.3% of **GDP**, will breach the euro-area's limits. **Spain's** government also drew up a tax-cutting budget, including tax rebates for having children; but it forecast a budget surplus of 1.2% of GDP in 2008. See article

In denial

Getty Images

The president of Iran, **Mahmoud Ahmadinejad**, caused fury in a speech at Columbia University, in New York, when he called for more research into the Holocaust and the “root causes” of the September 11th terrorist attacks. His appearance sparked protests in the city. By contrast, he was praised by politicians and the media when he arrived back in Iran. See article

The Supreme Court agreed to hear an appeal by two men on Kentucky's death

row that the combination of drugs used to impose the **death penalty** was likely to constitute “cruel and unusual punishment”. Litigation over lethal injection has already halted executions in ten states. See article

The House of Representatives passed a $35 billion plan to more than double spending on SCHIP, a popular **children's health-insurance** plan. But George Bush had promised to veto it, and the Republicans said they had the votes to sustain a veto. See article

The new US Court of Military Commission Review ruled that the **special military tribunals** set up in Guantánamo Bay were the proper venue to try foreigners designated as “unlawful enemy combatants”, opening the way for the first trials. The ruling overturned a military court decision in June asserting that, as the detainees have been classified simply as “enemy combatants”, the tribunals lacked the authority to try them.

Facing justice

Peru's former president, **Alberto Fujimori**, was flown to Lima after Chile's Supreme Court ordered his extradition to face seven charges, ranging from complicity in murder to corruption. See article

The Ways and Means Committee of the United States House of Representatives approved a **free-trade deal** with Peru, paving the way for its ratification by Congress.

A committee of **Mexico's** Congress ordered an investigation into the finances of Vicente Fox, a former president, after pictures of luxurious renovations to his ranch were published in a magazine.

After three months in which he disappeared from public view, **Fidel Castro**, Cuba's elderly leader, appeared in an hour-long television interview and was then photographed meeting Angola's president. Mr Castro is convalescing from intestinal surgery.

Time to talk

AFP

The Quartet—the UN, the United States, the European Union and Russia—that is trying to revive negotiations between **Israel** and **Palestine** agreed at a meeting in New York that there should be a peace conference in November. But the Palestinians and Israelis still disagreed over what should be discussed.

The Geneva-based International Organisation for Migration, which co-operates with UN agencies, said that some 480,000 **Iraqis** had registered as internal refugees since the start of 2007, bringing the total to more than 2.2m. Another 2.2m Iraqis are reckoned to have fled abroad.

A suicide-bomber killed 26 people, including the chief of police, in the mixed-sect city of **Baquba**, in a mosque compound where Shia and Sunni Arab leaders were holding reconciliation talks. Al-Qaeda leaders in Iraq said they would step up their attacks and kill tribal leaders who co-operate with American or Iraqi forces.

Zimbabwe's parliament passed an “indigenisation and economic empowerment” bill that is meant to ensure that black Zimbabweans own at least 51% of shares in most businesses. The bill already has the support of President Robert Mugabe's government. See article

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Business this week

Sep 27th 2007
From The Economist print edition

America's **housing blues** continued to deepen. Prices in 20 of the biggest cities fell by 3.9% in the year to July, according to the S&P/Case-Shiller home-price index. The National Association of Realtors said that sales of existing homes fell by 4.3% in August. The stock of unsold homes on offer rose to ten months of sales, the highest on record.

The bad news coming from America's housing market hurt the **dollar**, which was already suffering a renewed bout of weakness, after the Federal Reserve's recent interest-rate cut. Fears that Saudi Arabia would weaken its currency peg, later denied by the Saudis, helped drive the dollar to new lows against the euro. See article

Back to work

A two-day strike affecting **General Motors** (GM) in America ended after the company agreed on a new employment contract with the UAW. Under the deal, which sets a precedent for Ford and Chrysler, the union will take on the management of $51 billion of health-care liabilities for retired GM workers. The stoppage was the first nationwide strike against the company since 1970. See article

Dell said it would sell personal computers through Gome, China's biggest electronics retailer, which has outlets in more than 160 cities across the country. The deal marked the latest move by Dell away from its model of selling direct to customers.

America's **Securities and Exchange Commission** said it would investigate whether credit-rating agencies were unduly pressed by their clients on Wall Street into giving the highest grades to subprime mortgage bonds. The regulator was responding to claims that rating companies may have understated the risks of some securities so as to win fees from issuers.

Microsoft was said to be in talks to strengthen its alliance with Facebook by buying an equity stake. The deal could put a value of up to $10 billion on the three-year-old social-networking site. Meanwhile Microsoft said sales of its new videogame, **Halo 3**, had generated $170m on its release day, a record for America.

In a move to secure access to Hungary's oil pipelines, OMV, an Austrian oil company, made a hostile bid for **MOL Nyrt**. The offer, which valued MOL at 2.8 trillion forints ($15.7 billion), was rebuffed by MOL'S managers and the Hungarian government.

A group of private-equity investors, led by JC Flowers and Co, sought to renegotiate the terms of its proposed $25 billion buyout of SLM Corp, the student-loan company known as **Sallie Mae**. SLM rejected the claim that legislation to reduce public subsidies to loan makers allowed the buyers' group to back out of the $60-a-share deal struck in April.

Airbus received a boost for its troubled A380 superjumbo programme, when British Airways (BA) agreed to buy 12 of the aircraft, the first of its long-haul fleet not to be supplied by Boeing. The order was part of a $8.2 billion overhaul by BA, which included orders for 24 new Boeing 787s. See article

Rock around the clock

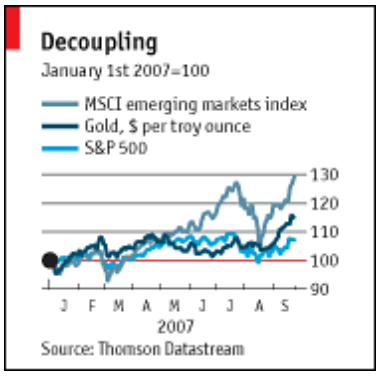
Northern Rock, a troubled British mortgage lender, cancelled a planned £59m ($119m) dividend payout. The announcement came a week after the bank had agreed on an emergency credit line with the Bank of England and a run on its deposits had been halted by a state guarantee. Britain's third-largest housebuilder, Barratt Developments, said sales had fallen by 5-10% since Northern Rock's problems became public.

British banks passed up the **Bank of England's** offer of three-month emergency lending. The loan auction, which let banks offer lower-grade collateral, was the first of a series announced on September 26th designed to add liquidity to the interbank market. Since the announcement, the cost of three-month borrowing has fallen below the 6.75% minimum the bank was charging. See article

At the **European Central Bank's** weekly loan auction, strong demand pushed the average successful bid to 4.29%, well above the 4% minimum.

Something left to reflate

The weak dollar helped **gold** reach a 27-year high of $739.50 a troy ounce on September 21st, before falling back slightly. **Oil** prices remained above $80 a barrel, after falling back from record levels. **Wheat** prices rose to a record level after Ukraine announced that from November 1st it would cut exports in an effort to cap domestic prices.



Bubbling up

The MSCI index of **emerging-market shares** reached a record high. The index has risen by more than a quarter since mid-August. The revival owed much to big gains in the largest emerging markets, such as China and India, which are expected to grow strongly despite the gloomier outlook for America.

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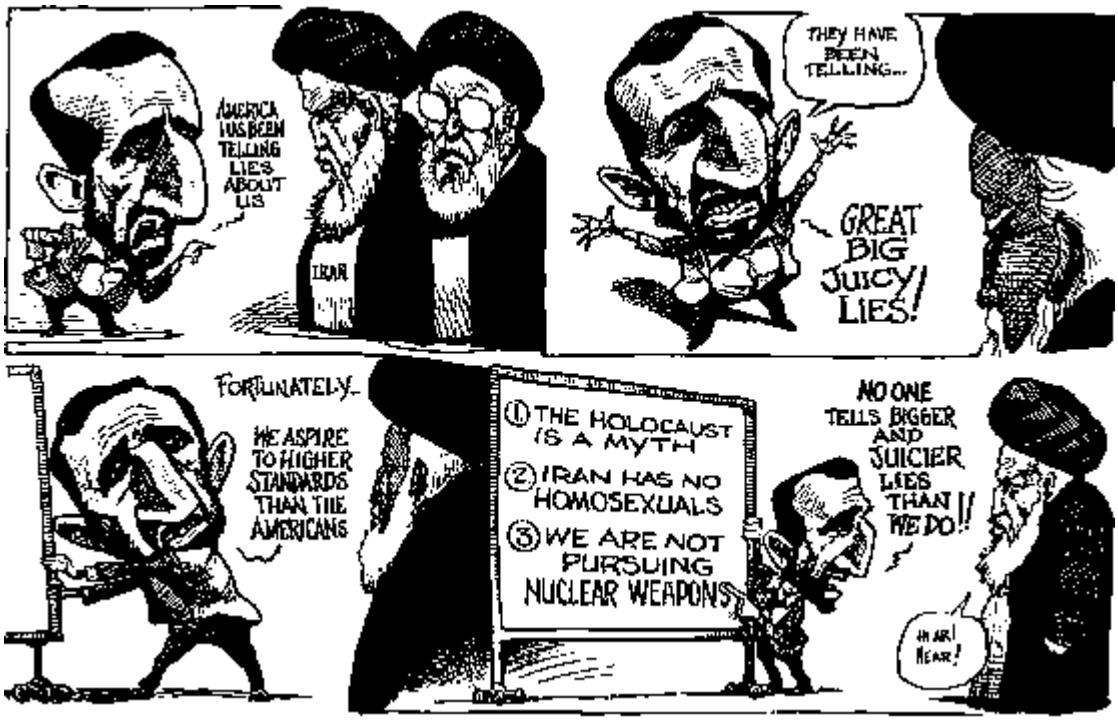
KAL's cartoon

Sep 27th 2007
From The Economist print edition

Illustration by Kevin Kallaugher



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Revolution in Myanmar

The saffron revolution

Sep 27th 2007
From The Economist print edition

If the world acts in concert, the violence should be the last spasm of a vicious regime in its death throes

Reuters

Get article background

“FEAR”, the lady used to say, “is a habit.” This week, inspired in part by the lady herself, Aung San Suu Kyi, partly by the heroic example set by Buddhist monks, Myanmar's people kicked the addiction.

Defying the corrupt, inept, brutal generals who rule them, they took to the streets in their hundreds of thousands to demand democracy. They knew they were risking a bloody crackdown, like the one that put down a huge popular revolt in 1988, killing 3,000 people or more. In 1988 Burma's people were betrayed not just by the ruthlessness of their rulers, but also by the squabbling and opportunism of the outside world, which failed to produce a co-ordinated response and let the murderous regime get away with it. This time, soldiers are once again shooting and killing unarmed protesters (see article). Can the world avoid making the same mistake twice?

In New York for the United Nations General Assembly, Western leaders, led by George Bush, harangued the junta, and threatened yet more sanctions. They have probably already shot their bolt. Western sanctions have been tried and have failed, in part because Myanmar's neighbours have for years followed a different approach. Its fellow members of the Association of South-East Asian Nations waffled about “constructive engagement” while making economic hay in Myanmar from the West's withdrawal. India, too, anxious about China's growing influence, and hungry for oil and gas, has swallowed its democratic traditions and courted the generals.

Comrades-in-arms

China itself has built an ever-closer relationship. The two countries, after all, have a lot in common beyond a shared border. Since the 1980s a wave of “people-power” revolutions has swept aside tyrannies around the world. Mercifully few regimes, and few armies, are willing to kill large numbers of their own people to stay in power. Two big exceptions have been Myanmar and China, whose government in 1989 likewise stayed in power through a massacre.

Yet it is China that now offers the best hope the outside world has of changing Myanmar for the better. Admittedly, it is a thin hope. There are plenty of reasons to doubt China's willingness to upset Myanmar's generals. China's traditional posture, heard again this week, is to oppose any “interference in the internal

affairs of another country". It trots out this formula so often when foreigners criticise its own behaviour that, even if it supports change, it is hard for it to utter more than platitudes, as it has this month, about the desirability of a "democracy process that is appropriate for the country".

China has also been the chief beneficiary of the partial Western boycott. Myanmar offers two of the prizes China values most in its foreign friends: hydrocarbon resources and a friendly army, willing to give it access to facilities on its coast on the Bay of Bengal. China has become the junta's biggest commercial partner and diplomatic supporter.

Nevertheless there are two reasons why China might now see its own interests as best served by assisting a peaceful transition in Myanmar. The first is that China wants stability on its borders, and it is becoming obvious that the junta cannot provide it. The generals' economic mismanagement has helped reduce a country blessed with rich resources to crippling poverty. Fleeing economic misery as much as political oppression, up to 2m migrants from Myanmar are in Thailand. And it was an economic grievance—a big, abrupt rise in fuel prices—that sparked the present unrest.

The junta has at least succeeded in cobbling together ceasefire agreements with most of the two dozen armed insurgencies lining its borders. But the price has been lawless zones where banditry and illegal-drug production are rife. Myanmar's slice of the "Golden Triangle" on its Thai and Lao borders was for a while in the 1990s the world's dominant heroin producer. It has been largely priced out of that market by Afghan competition. But it has successfully diversified into methamphetamines. The business relies on precursor chemicals coming from China, but, just as heroin from Myanmar brought China addiction and, through shared needles, HIV and AIDS, so "ice" can wreak havoc. Nobody expects any transition to democracy to be trouble-free. But, Chinese leaders must be asking themselves, can it be any worse?

Appealing to the Olympic spirit

China must also be wondering nervously how all this will affect next year's Olympic games in Beijing. Already, protests about China's support for the government of Sudan, larded with comparisons to the 1936 Berlin Olympics, have shown that its foreign policy as well as its human-rights record at home is under scrutiny. Myanmar is justifiably a popular cause in the West. If China proves actively obstructive to international efforts to bring the junta to book, it may provoke calls for a boycott of the games.

It is of course wrong to assume that China can dictate to Myanmar. In the generals' deluded world-view, only they can preserve Myanmar's independence. They will take orders from no other country. China's role is crucial, nonetheless. It must not blunt the impact of measures taken by other countries and provide the junta with a shield to fend off demands to do what it should.

That, at least, is easy to prescribe. It should stop shooting protesters; free all political prisoners, including Miss Suu Kyi; scrap the constitutional guidelines drawn up by its farcical "national convention"; and start serious talks with all groups, including Miss Suu Kyi and her party. The aim of those talks should also be clear: to arrange a transition to civilian, democratic rule. For their part, provided free and fair new elections are held, Miss Suu Kyi and her party should not insist on the results of the election they won in a landslide in 1990 being honoured. And, unpalatable as it is, they should offer the generals whatever incentive they need to go quietly. This all sounds a pipedream. It will certainly remain so if the outside world does not unite around a set of demands, and agree on the sticks and carrots that might make deaf old soldiers listen.

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World economy

Stronger China

Sep 27th 2007
From The Economist print edition

Thanks to China, an American recession need not cause the whole world to crash

Illustration by Bill Butcher

ECONOMISTS have long warned that the world economy could not fly for ever on the single engine of American demand. A one-engined plane is more likely to crash. With its housing market blighted and its consumers growing fearful, America now faces a mounting risk of recession. The good news, however, is that the world has found some powerful new engines in China and other emerging economies. Even as credit markets seize up, a world economy that is less dependent on the United States is more likely to stay aloft.

The power of this new motor is startling. For several years, emerging Asian economies have accounted for more of global GDP growth than America has. This year China alone will for the first time accomplish the same feat all on its own (at market exchange rates), even if American growth holds up. American consumer spending is roughly four times the size of China's and India's combined, but what matters for global growth is the extra dollars of spending generated each year. In the first half of 2007 the increase in consumer spending (in actual dollar terms) in China and India together contributed more to global GDP growth than the increase in America did.

Of course, this silver lining has its cloud. A sharp slowdown in China now would have much nastier global consequences than in the past, and the Chinese economy has weaknesses. But it does not look like getting into trouble over the next couple of years (see article)—the period in which America looks as though it may be feeble. If China can keep flying high, it will help keep the world economy safe.

Of course, if America suffers a recession, then Asia's exports will weaken. But this should not hurt GDP growth too much because other factors should help offset the weakening. It helps that China and most other Asian emerging economies are now exporting more to the European Union than to America. China's exports to other emerging economies are growing even faster. It helps, too, that domestic spending has strengthened and is likely to stay strong: China, along with most of the rest of Asia, is one of few parts of the world without a housing bubble.

If emerging Asian economies start to look weak, their governments have some scope to strengthen them. Most, with the exception of India, have small budget deficits; some even have surpluses. So if exports collapse, governments also have ample scope to boost domestic demand.

Commodity prices, too, will continue to feel the effect of the emerging economies' increased importance. It is commonly assumed that an American recession would cause a sharp fall in the prices of oil and other commodities. But emerging Asia accounted for two-thirds of the increase in world energy demand over the past five years. So if Asia remains strong, commodity prices should too, and commodity-producing

emerging economies such as Brazil, Russia and the Middle East will also continue to thrive.

Steady on

Emerging Asia cannot pick up all the slack if America goes into recession. Average world growth will slow—and, arguably, it needs to. But Asia can help to keep the world chugging along. Indeed, a modest slowing in the American economy could even help Asia in the long run if it forces governments to switch the mix of growth from exports to consumption and so make their future growth more sustainable.

Not so long ago, the rich world used to regard emerging economies as risky and unstable. That view needs to change: emerging economies now look like a force for stabilising the world economy.

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France and the European Central Bank

Faulty Sarkonomics

Sep 27th 2007
From The Economist print edition

AFP

The French president is wrong to attack the European Central Bank

Get article background

IT HAS been a tough few weeks for the world's central bankers. The summer's seizing-up of financial markets posed severe policy dilemmas, and led some critics even to question the value of central-bank independence. It could not be a worse time for a politician to launch broadsides at a central bank. Yet that is what France's President Nicolas Sarkozy has done, triggering a public spat with his compatriot, Jean-Claude Trichet, president of the European Central Bank (ECB).

Mr Sarkozy's gripes take two forms. He has criticised the ECB for injecting liquidity into dried-up financial markets, arguing that this amounts to a bail-out for speculators that does not help business. And he has blamed the bank both for failing to cut interest rates and for negligently letting the euro appreciate. He has even drawn unfavourable comparisons with America's Federal Reserve, claiming that it has rescued a struggling economy by slashing rates, whereas the ECB's refusal to do likewise means simply that “we sink”.

These attacks are not only inconsistent but also wrong-headed. It is always unseemly to criticise an independent central bank in public—imagine the fuss if America's George Bush were to lay into the Fed's Ben Bernanke in similar terms. Worse, Mr Sarkozy is largely awry in his economics. The ECB's monetary-policy record is good, in some ways better than the Fed's. It has provided macroeconomic stability, curbed inflationary pressure and prevented the build-up of the imbalances that bedevil the American economy. And the idea that the ECB is responsible for Europe's sluggish growth is belied by the strong performance of individual countries: not only the small and peripheral, such as Ireland and Finland, but also Spain and, more recently, even Germany.

The truth about weaker euro-area economies, notably France and Italy, stares Mr Sarkozy in the face: their ills are home-grown. He himself admitted this before his presidential campaign, when he called for a “rupture” with France's past. Behind his bluster at the ECB he is pushing supply-side reforms, including a loosening of the gummed-up French labour market. Indeed, his allies suggest that attacks on Mr Trichet may create a useful smokescreen for the more important business of getting on quietly with economic reform.

Unfortunately the smokescreen is not likely to help. French voters backed Mr Sarkozy in May because they accepted the case for reform in theory. But whether they will back it in practice remains far from certain. And by going after the ECB, Mr Sarkozy only encourages a deeply held belief among many French people that their economic problems are created largely by outside forces, such as globalisation,

free trade, unfair competition, outsourcing, the European Commission—or the euro and the ECB. Fostering this belief is hardly a way to make people more amenable to painful changes at home.

Nor will it make it easier to practise fiscal austerity. Nettled by Mr Sarkozy's shots, Mr Trichet has fired back at his country's profligacy. France has the biggest public spending, as a share of GDP, in the European Union; in the past decade its public debt has grown faster than that of any other old EU country; it is ignoring the euro area's (weakened) stability-pact ceilings on public borrowing. Ahead of this week's relaxed budget, even Mr Sarkozy's prime minister, François Fillon, confessed that the French state was “bankrupt” (see article).

Don't shoot the messenger

It is clear that the French government has much work to do in further reform and liberalisation, and in sorting out its own finances, before the economy gets back on track. Mr Sarkozy, who made much in his campaign of the need to tell voters the truth, should be spelling this out, rather than taking pot-shots at the ECB. Yet there is one point that Mr Sarkozy's assaults, which uncannily echo those made by his predecessor, Jacques Chirac, on his own national central bank (which was then run by Mr Trichet), has laid bare.

As recent events have shown, central bankers cannot act entirely outside their political context. In most countries suitable channels exist for governments to make their views known, without threatening their central banks' independence. A “euro group” of finance ministers exists, but there is little genuine dialogue between national governments and the ECB. Sadly Mr Sarkozy's attacks only make the ECB more stubborn in refusing to listen to politicians. Yet it could find it helpful to have more exchanges with national governments—provided they are discreet and unpublicised. Making monetary policy by megaphone never leads to good results.

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Gordon Brown

History? What history?

Sep 27th 2007
From The Economist print edition

Britain's new prime minister is keen to walk away from his record, but he needs to learn from it

AFP

IF THERE is one thing above all that distinguishes Gordon Brown from his predecessor, it is surely a sense of history. Tony Blair might occasionally have felt its hand on his shoulder, as during the Good Friday talks in Northern Ireland, but he generally managed to shake it off. Public-service reforms sprang fully clad from Mr Blair's brain, free of their Tory antecedents. British soldiers, outmanoeuvred for 160 years in Afghanistan, left no footprints in his sand. Each day was a new dawn, and 1997, the year Labour came to power, was Year Zero.

Mr Brown is a different proposition. Steeped in the ideas of the Scottish Enlightenment, the early Labour Party and much besides, he is rarely without an historical reference on his lips. Yet he too has succumbed to the Year Zero fallacy, and not only at the Labour Party conference this week (see article). Attempting to promise change while preaching the benefits of continuity, he speaks of Britain as though he had just happened upon an indifferently run firm that needs to pull its socks up. Yet it is he who, with Mr Blair, has been running it.

Mr Brown is both a clever politician and a lucky one. Even when pollsters could find no one from Bradford to Bexhill who wanted to have a drink with him, many thought the chancellor of the exchequer likely to be a good man in a crisis. And fate has obliged, since he took the top job, with terrorist attacks, floods, foot-and-mouth outbreaks and threatened financial melt-down. Never mind that the government's own policies contributed directly to the last of these and perhaps to the second and third. His deep Scottish voice and serious mien settled the horses; his ratings in the opinion polls have soared.

Now, however, as Parliament returns from recess and spending choices loom, the real work of government begins. Mr Brown must decide soon whether to put his new-found popularity to the test by calling a snap general election this autumn (see article). If he does, he may be accused of opportunism and time-wasting; if he doesn't, predicted economic slowdown, tough decisions and less easily managed disasters could take the shine off.

Yet unless Mr Brown makes peace with his past, he is no shoo-in, nor is he likely to run the country well. For he is not, as he likes to suggest, a first-term prime minister. He leads a party that has been in power for a decade.

Those who do not learn its lessons

During his troubled partnership with Mr Blair, Mr Brown allowed speculation that he differed from him in undefined but important respects—less keen on private-sector delivery of public services, perhaps, more keen on the instrumental state. He now has two choices: either to make it clear that he stands by the policies on which his party was elected, renewing the intellectual case for them and pressing ahead, or to hoist new colours and seek a fresh mandate. So far he has done neither.

In recent weeks his government has taken small but telling steps to rein in reforms in education and health, and Mr Brown's conference speech left its hearers little the wiser as to where he might be heading. Change and more change are on the cards, it seems, based on listening to and learning from the British public. Mr Brown does not suggest analysing and learning from his own ten years in power.

For that, honestly undertaken, would mean admitting mistakes, and Mr Brown has little taste for it. Yet there are important lessons to be drawn. The first—with health care as a prime example—is that throwing money at a problem before nailing down the reforms needed to secure commensurate improvements is not enough. Mr Brown now has less money than before to throw around, yet he still speaks of raising the sums spent per pupil in state schools, for instance, as if more cash, not higher standards, were the goal.

A second, related, lesson is that public services cannot be improved by central diktat and performance measurement. Better by far to set up market mechanisms that allow individuals to do the job. Hints that Mr Brown is undercutting reforms to increase choice and competition in public services, for example, suggest that this moral has passed him by.

So far the public has indulged Mr Brown in his fiction that he is new in town. But if he does not learn from his past, others will, beginning with the opposition. Mr Brown may then find the electoral outlook less agreeable.

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Sputnik

Spacemen are from Mars

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Half a century of space exploration has actually served to illuminate the Earth

FIFTY YEARS ago the Soviet Union launched the world's first artificial satellite. *Sputnik* burst into orbit on October 4th 1957, in the midst of the cold war. It was a surprise to the world, a shock to many Americans, and the starting gun for the space race between the superpowers. Thereafter, America vied with the Soviet Union for supremacy in aerospace's equivalent of “mine's bigger than yours”, as successively taller rockets lobbed larger payloads further afield.

The legacy of all this posturing is a view of space travel as a macho, gung-ho affair, all about the conquest of the solar system by men with shiny suits and very big rockets. In the 1950s many people imagined that in the decades to come the new frontier would be beaten back by pioneers bent on interplanetary colonisation. By the end of the millennium there would be a moon base at the very least. Probably, there would be hotels in orbit, frequent missions to other planets and mines on asteroids extracting metals considered rare and precious on Earth. To extend John Gray's metaphor about men and women: space was from Mars.

As it has turned out, space is actually from Venus. People have hardly travelled anywhere at all—although a scandalous amount of money has been wasted on the conceit that voyaging across the cosmos is humanity's destiny. Instead, what has happened is inward-looking and Venusian in an almost touchy-feely way rather than outwardly directed. Most of the satellites in orbit round Earth look down, rather than up, and the biggest mental change wrought by spaceflight has been not an appreciation of the vastness of the universe, but rather of the smallness, fragility and unity of Earth.

Third rock from the sun

This mental change began in a very Martian way. Before Soviet engineers built the rockets that put *Sputnik* in orbit, warfare was seen as being, in some sense, a limited thing. Even in the atomic decade that had preceded the space age, bombers flown by real people would have to deliver nuclear death to their targets. Negotiations could take place while they were in the air. They could be shot down. And those that got through would probably not destroy everything. After *Sputnik*, megadeath would arrive in minutes by rocket, non-negotiably, and in such quantities that global annihilation looked on the cards.

But bellicose intercontinental ballistic missiles were not the only spawn of *Sputnik*'s launch. There was also the satellite itself. Today almost 900 of the things are in orbit around Earth, operated by more than 40 countries. Some are old-fashioned martial spy satellites, but many more are Venusian—watching the weather, the oceans, the changing climate and the use of land. Others broadcast television programmes,

relay telephone calls, or send out the signals that tell people exactly where they are on the Earth's surface. Such satellites have enabled scientists and engineers to treat the planet as a single thing in a way that they previously did not.

More subtle—and just as far-reaching—was the message epitomised during the next leg of the space race when the crew of *Apollo 8* photographed Earth-rise over a lunar horizon on Christmas Day, 1968. Earth is a fragile pocket of life in a very large and lonely universe. Looking back at a small, blue-green planet from outer space and seeing its unity and its vulnerability also changed perspectives. It was a force behind the environmental movement, which began at about that time. Rather as a foreign country helps a traveller understand his home, so it has taken space flight to understand Earth.

Some insist that humanity must hurry on with the Martian vision, to explore and ultimately to colonise other planets to secure the species's future. That may be necessary one day and many countries, and some companies, still pursue this vision of space. America's government wants a moon base, the Chinese are interested in going there, too. There might be a rekindling of the kind of nationalistic fervour of yesteryear.

The lesson of the past 50 years, however, is that the more humanity discovers about space, the rarer and more precious life on Earth seems. For the moment Venusian voyages to understand mankind's home planet are better than Martian ones to understand how to abandon the mother ship.

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On staying in Iraq, Dutch women, Northern Rock, the Endangered Species Act

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A close inspection of Iraq

SIR – You concede that opponents of the Iraq war have made a "powerful" case and acknowledge that "America's military presence has not prevented massive human suffering" ("Why they should stay", September 15th). You say a premature exit would cause unacceptable violence and feebly suggest that "having invaded Iraq in its own interest—to remove mass-killing weapons that turned out not to exist—America owes something to Iraq's people". You then report that 57% of the Iraqis to whom America is supposedly indebted consider attacks against coalition forces acceptable. You conclude that imploring America to continue the fight is "Not a must, just an ought" (a departure from your typically self-assured swagger).

You fail to explain why America's people or its troops should be forced to do penance for the lies of its government. One can only conclude that you continue supporting America's military operation in Iraq simply because you have fallen prey to the same refusal to admit error that has plagued George Bush's administration in Washington.

Sam Jacobson
Edgemont, New York

SIR –"If America could choose again, it would not step into a civil war in Mesopotamia." How about "instigate" rather than "step into"?

Robert Carlson
Minneapolis

SIR – You made a very convincing case that the situation in Iraq will deteriorate even further if America withdraws. But in effect, America is locked into a classic double-bind: damned if it does and damned if it does not remain there. America is paralysed, a fact which Americans should take into account when they hear some of their leaders gleefully state that there has not been another attack since September 11th. Indeed, why should there be? The spectre of global terrorism has tied America up in knots in Iraq, rendering us totally unable to deal with any issue (eg, immigration) other than through some highly expensive, albeit cosmetic, gesture to protecting the homeland. Americans and Iraqis continue to die and our overall security situation continues to decline. We have become our own worst enemy.

Dennis Sandole
Professor of conflict resolution
George Mason University
Arlington, Virginia

SIR – No matter when America leaves Iraq, things will get worse. But this is not a valid argument for staying. The longer it takes to leave, the greater the disaster when that leaving finally happens. Depending on an Iraqi army or the police or government to lessen the disaster is wishful thinking of the most pollyannaish kind. Better to leave now and save some American and British lives and, yes, some Iraqi lives, too.

Anthony Ralston
London

The work-life balance

SIR – It is interesting to note the relatively low participation of Dutch women in full-time work ("Tied to the kitchen", September 8th). Yet your inference that "maternal guilt" needs to be "cured" in the Netherlands is at odds with other observations that Dutch teenagers appear to be the best adjusted and happiest, have a lower rate of self-harm, and are the fittest and healthiest compared with their peers in other countries. The Dutch also have relatively far fewer people in jail. I wonder if there is any relationship? And who has the balance right?

Alex Willink
Melbourne, Australia

SIR – An explanation of Dutch women being less likely to be full-time working mothers may be provided in the book you reviewed earlier on the millions of single women after the first world war ("Send them to the colonies", September 1st). As the Netherlands remained neutral during the war, it did not suffer the same losses of men that other countries in Europe did. As a result, it was easier to keep mothers caught in the tradition of kitchen, kids and cakes, rather than to encourage them to work in order to plug gaps in the labour market.

Nanke Meuter-Dikkers
The Hague

Northern Rock responds

SIR – With the benefit of hindsight, you describe Northern Rock's business model as "dangerous" ("The Bank that failed", September 22nd). Northern Rock's strategy was at all time transparent to the market and to the regulator. Our lending was and is prudent. We have half the industry average of arrears and no subprime loans. To manage liquidity risk, our funding is deliberately diversified, both geographically and between four funding streams—retail, wholesale, securitisation and covered bonds. Of the non-retail funding, less than 20% has a shorter term than the average three-year duration of a mortgage on our balance sheet.

We were repeatedly advised that liquidity in wholesale markets depended on lending quality: good loan books would continue to attract funding when bad loan books began to default. Instead, from August 9th, liquidity has dried up across all wholesale markets, making no distinction between loans of different quality, for much longer than even the most extreme forecast. In America and Germany, where many subprime loans have ended up on banks' balance sheets, the liquidity crisis has been managed smoothly, whereas in Britain, with low arrears, a bank with a high-quality loan book nonetheless found itself in a situation where its retail depositors temporarily felt threatened.

While we have welcomed the measures which the British authorities have put in place to reassure depositors, this should not hide the fact that in Britain it was general liquidity that was the problem, rather than specific lending practice.

Matt Ridley
Chairman
Northern Rock PLC
Newcastle

Natural scheme of things

SIR – You seem to misunderstand the purpose of America's Endangered Species Act ("The overcrowded ark", September 8th). Rather than just protecting "charismatic fauna", the act is designed to safeguard the habitat of endangered plants and animals for many reasons, including the stability of ecosystems. That is why protecting the delta smelt, the "little fish" to which you refer, is so important. Its decline is a harbinger of the collapse of the biggest estuary on the west coast.

This estuary provides clean water for farms and cities in California. Anyone who cares about clean drinking-water or jobs for salmon fishermen should care about the smelt. The steps we take to protect it, namely ensuring that enough fresh water stays in the delta, are the same steps that will ensure clean water for people. That's why farmers and business leaders in the delta support efforts to protect the smelt.

The benefits that plants and animals give to humans aren't always obvious. The Endangered Species Act protects them all because otherwise we may not appreciate them until it's too late.

Kate Poole
Senior attorney
Natural Resources Defence Council
San Francisco

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Myanmar's protests

On the brink

Sep 27th 2007 | BANGKOK AND YANGON
From The Economist print edition

Reuters

How Myanmar's people rose up against its regime—and the regime rose up against its people

Get article background

THERE are reckoned to be 400,000 monks in Myanmar (formerly known as Burma), about the same as the number of soldiers under the ruling junta's command. The soldiers have the guns. The monks have the public's support and, judging from the past fortnight's protests, the courage and determination to defy the regime. But Myanmar's tragic recent history suggests that when an immovable junta meets unstoppable protests, much blood is spilled. In the last pro-democracy protests on this scale, in 1988, it took several rounds of massacres before the demonstrations finally subsided, leaving the regime as strong as ever. By September 27th, with a crackdown under way, and the first deaths from clashes with security forces, it seemed hard to imagine that things would be very different this time.

One genuine difference is that, in the age of the internet and digital cameras, images of the spectacular protests in Yangon, the main city, have spread at lightning speed across Myanmar itself, encouraging people in other towns to stage demonstrations of their own; and around the world, bringing the crisis to the attention of leaders as they gathered in New York for the United Nations General Assembly. The remarkable images from Myanmar have meant that, for a while at least, a country that has been brutalised and pauperised by a callous and incompetent regime for 45 years has the attention it deserves.

The latest round of protests began last month, after the government suddenly imposed drastic fuel-price rises. At first, the demonstrations, organised by veterans of the students' movement that led the 1988 protests, were fairly small. The regime arrested many leaders and sent plain-clothed goons to beat up demonstrators. It looked as if the protests might fizzle until, earlier this month, soldiers fired over the heads of monks demonstrating in the central town of Pakkoku. Some reports said monks were also beaten and arrested.

In Buddhist tradition, monks are rather different from in the West: large numbers of young men don russet robes for just a few years. So they are more integrated into the wider society, and more influential.

The clergy demanded an apology, setting a deadline of September 17th. The next day, their demand having been ignored, they took to the streets. They also, in effect, excommunicated the military and their families by announcing they would refuse to accept alms from them—a serious matter in a devout

country.

Setting out at 1pm each day from the golden Shwedagon pagoda—Myanmar's most sacred shrine—a seemingly endless line of shaven-headed monks, many barefoot, has passed through the streets of Yangon. At first the monks limited themselves to chanting prayers and discouraged the public from joining them. But on September 22nd a hitherto unknown group, the All Burma Monks' Alliance, called on people to “struggle peacefully against the evil military dictatorship”. After this, large numbers of ordinary Burmese joined in, many linking hands along the route of the monks' procession. The monks' chants became overtly political, including the cry, “democracy, democracy”.

At first, the regime dithered. It fired tear-gas canisters at one of the first monks' protests, in the western town of Sittwe. But for the next few days, its forces stayed out of sight. On September 22nd, to their astonishment, a group of monks and laymen was allowed to pray outside the normally heavily guarded home of Aung San Suu Kyi, the leader of the opposition National League for Democracy (NLD) and icon of Myanmar's struggle for democracy. Though Miss Suu Kyi is under house arrest, she was able to walk to her gate and, in tears herself, greet the tearful protesters.

Miss Suu Kyi's public appearance—her first since she was detained four years ago—proved a boon to the demonstrators. On Monday (September 24th) the protest in Yangon was said to be 100,000-strong. Monks waved the red “fighting peacock” flag, the emblem of the students who led the 1988 protests.

That night the regime broke its silence at last. On state television and radio, it warned of unspecified action “according to the law” if protests continued. The next day the protesters defied the threat, staging a demonstration at least as big as Monday's. As on previous days, the young monks were marshalled along the route by older ones with megaphones, followed by a vast throng of ordinary Burmese, and the odd government spy.

Those taking part were enormously moved by the defiance they achieved, as if that were an end in itself. Yet no one *The Economist* spoke to believed the government would yield; they were marching less in hope than in anger and despair. “I don't think we can defeat the government; I can't imagine what will happen,” said one young woman, “But we hope. We hope for the success of our revolution.”

Soon after Tuesday's march ended, troops and riot police moved in to positions around Yangon. The junta hunkered down for talks in Naypyidaw. That is the remote new capital the paranoid regime has built itself in the centre of the country for obscure reasons (perhaps on the advice of its soothsayers, or in fear of an American invasion, or of just this sort of popular uprising). Britain's ambassador, Mark Canning, went there and met two deputy ministers. He said they were under the illusion that the protests

had been stoked by “meddling” foreign powers. Miss Suu Kyi was reported to have been moved to the regime's dreaded Insein prison.

On Wednesday the authorities announced a two-month night-time curfew and troops surrounded monasteries in Yangon. But swarms of protesters again poured on to the streets, defying tear-gas, warning shots and baton charges. The first deaths, including of monks, were reported. On Thursday, troops burst into monasteries around the country to make arrests but, again, this did not stop monks and laymen from hitting the streets, where riot police shot at them.

In 1988, when protests also had an economic basis, monks took an active part. They did so again in 1990, after the regime called an election and ignored the result (a landslide victory for the NLD). But this time they are in the vanguard. Given the reverence they are accorded by the predominantly Buddhist public, they will be harder for the regime to dismiss as criminals and subversives.

EPA

Dream on

It is unclear who is leading the monks' protest movement, says Aung Naing Oo, a political analyst and veteran of the 1988 student movement. But, he says, they seem well organised. Some of the clergy's top leaders on the State Sangha Council have been bought off by the regime. Others, though, seem sympathetic to their young disciples. At the very least, says Mr Oo, it can be assumed that the protesting monks have the blessing of the abbots in charge of the monasteries. The raids on the monasteries seem designed to smash this source of resistance.

The *tatmadaw* (armed forces) did not hesitate to arrest, beat and jail monks in 1988 and 1990. But this time, not only are the monks (and many Buddhist nuns too) leading the protests, but the numbers taking part are also far larger than before. Furthermore, the army has changed. In 1988 it was mostly professional and had recent experience of waging war against Myanmar's sizeable ethnic-minority militias. Since then its numbers have been greatly expanded through conscription, which means many of today's soldiers are ill-trained peasant boys, whose families will have suffered from the regime's colossal incompetence. Ironically, the army's success in forcing many of the armed ethnic insurgencies to accept ceasefires has left it with few soldiers with much real experience of fighting.

The regime may be trying to calibrate its response to the protests, using limited force at first to quell opponents. That said, it still has elite disciplined units which would be unlikely to flinch if ordered to open fire on unarmed monks and nuns.

If there are any cracks in the junta's unity, nobody outside knows about them. General Than Shwe, the 74-year-old paramount leader, is rumoured to be gravely ill but it is assumed that, when he goes, his replacement will be just as thuggish. Taking account both of the expanded army and of the sizeable ethnic militias, Myanmar is one of the world's most militarised countries, notes Martin Smith, a writer on the place. The junta's leaders, pointing to the country's chaotic period of parliamentary democracy between independence in 1948 and the military takeover in 1962, sincerely believe the army is the only institution capable of holding Myanmar together. They are determined to cling to power whatever the cost.

It is just possible, however, that the regime may match violence with concessions. Earlier this month, it wrapped up, after 14 years, a national convention to draft the guidelines for a new and supposedly democratic constitution. In fact, the new charter would leave the army in charge and political rights severely curtailed. But its precise wording has not yet been decided and the next steps towards implementing it are uncertain. This leaves scope for promises of progress, in the hope that this will weaken the protests.

A bloody dawn?

Few demonstrators would trust such promises. But, combined with a stranglehold on the monasteries, and other repressive measures aimed at whittling down the numbers of protesters, they might be enough to show, once again, that resistance is futile. Back in 1988, at the peak of the protests, even as soldiers

were mowing down the crowds, many Burmese felt sure the rotten regime was ready to collapse under the unstoppable force of “people power”, as the Marcos regime in the Philippines had two years earlier.

Even if the regime does crumble and the junta stuffs its bags with gemstones and heads for exile, Myanmar's troubles would still be daunting. Many of the ethnic minorities continue to distrust the majority “Burmans”, even including the democrats. And the NLD has been gutted by years of oppression. Miss Suu Kyi, inspiring figure though she is, is an untested leader who has perforce been woefully out of touch with events.

As in 1988 and 1990 the Burmese people have shown they want to choose their own leaders. In the past they did not fully reckon on the ruthlessness of the people they were up against. One day, as with all tyrannies, Myanmar's will fall. But much blood may flow before that day dawns.

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Myanmar and the world

Destructive engagement

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The outside world shares responsibility for the unfolding tragedy in Myanmar

Get article background

LIKE North Korea's Workers' Party, another vile dictatorship that has visited misery and penury on its own people, Myanmar's junta has survived in part through diplomatic triangulation. Like North Korea, it has borne isolation and rhetorical hostility from the West by cosying up to the neighbours, notably China. And it has tried to avoid total subservience to any one of these by playing them off against each other.

Reuters

No way out?

As in the past, the world's initial response to the junta's violence was marked by bickering and point-scoring. On September 27th, the United Nations Security Council met in response to pressure from the West for co-ordinated sanctions. But Russia and China argued that the unrest was an internal matter that should not be on the council's agenda at all.

America announced new sanctions against the regime, in keeping with a policy some Western countries have pursued for nearly two decades. They are cheered on by a vocal and well-organised exile movement, and, when she was able to make her views known, by Aung San Suu Kyi herself. Her heroic stature has helped make Myanmar a fashionable cause. Awarded the Nobel peace prize in 1991, she has attracted the backing not just of fellow winners such as the Dalai Lama and Desmond Tutu, but also of Laura Bush, the president's wife and Gordon Brown, Britain's prime minister. The next Rambo movie features our hero taking on the *tatmadaw* single-handed.

Shareholder-activists and ordinary consumers have also done their bit to encourage a boycott. But the campaign to punish the regime sometimes seems to have lost sight of its real goal, and to be ready to celebrate isolation itself, not the change it is supposed to bring.

In fact, isolation has never really been on the cards. Any gap is eagerly filled by Myanmar's neighbours—not just China, but also India and Thailand and other members of the Association of South-East Asian Nations (ASEAN). Even in the Western camp there have been differences in approach between the three most important members, America, the EU and Japan.

American leaders have insisted the junta honour the 1990 election result and step aside. To this end, they have imposed wide-ranging sanctions. The most important of these block foreign aid and lending to

Myanmar by the World Bank, IMF and Asian Development Bank. Official aid flows to Myanmar are among the lowest of any poor country in the world—around $2.50 a head each year, compared with, for example, $63 in next-door Laos.

The EU has been more equivocal, demanding greater respect for human rights and a transition to civilian democracy, but appearing to accept fresh elections as the way to get there. Its sanctions have been correspondingly milder. Japan has been softer still. Burma's biggest aid donor until 1988, it has continued to provide small-scale help, apparently hoping to retain a smidgen of influence.

These days, however, if any countries can sway the junta they are the regional ones: ASEAN, especially Thailand; India; and above all China. When ASEAN controversially admitted Myanmar in 1997, on the organisation's 30th anniversary, it said membership would be an engine for positive change through “constructive engagement”. ASEAN's culturally sympathetic but fast-growing founder members would show Myanmar the way. This was guff.

Viewed most cynically, Myanmar's accession was part of a bid by ASEAN members to secure access to the country's rich resources: timber, oil, gas and minerals. Using more sophisticated (but no less cynical) geopolitical arguments, ASEAN diplomats justified admitting the unsavoury bunch as a way to prevent Myanmar becoming an arena in which China and India would vie for influence.

But this is happening anyway. China had a head start, and is maintaining its lead comfortably. Itself responsible for quelling an uprising with a massacre in 1989, China's government had few qualms about expanding ties with Myanmar during the 1990s. It supplied weaponry, including multiple-rocket launchers, fighter aircraft and guided-missile attack craft.

Western and Indian analysts worry that China sees Myanmar as part of its so-called “string of pearls” policy of building naval and intelligence bases around the Indian Ocean. There were reports that China was delivering signals equipment for monitoring stations on various coastal sites, and had a permanent presence on Great Coco Island (see map). Such talk has fuelled Indian paranoia, though Western analysts dismiss it.

Border trade, through the thriving, sleazy town of Ruili, also boomed. In the 1990s it included opium and heroin; shared needles produced China's first HIV epidemic, helping teach China the importance of “stability” in its neighbour.

In recent years the economic relationship has been transformed by China's hunger for energy and its involvement in big infrastructure projects. According to EarthRights International, an American NGO,

Chinese firms are by now involved in about 40 hydropower projects and at least 17 onshore and offshore oil-and-gas projects. They have also announced plans to build a 2,400km (1,500 mile) oil-and-gas pipeline from Arakan in western Myanmar to China's Yunnan province.

China has also given the junta diplomatic support, helping for years to keep its behaviour off the agenda of the United Nations Security Council. But Myanmar is far from a client state. This week Chinese spokesmen called for restraint in responding to the protests. Their pleas seem to be falling on deaf ears.

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Black leadership in America

Race, justice and Jena

Sep 27th 2007 | JENA, LOUISIANA
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AP

An overzealous prosecution highlights America's changing racial politics

A SIGN outside Jena describes it as “a nice place to call home”. But this town in Louisiana is small, poor and, for many, a new symbol of old-style American racism. On September 20th some 20,000 people rallied in the heat to protest against racial discrimination in the justice system. They came from as far afield as Chicago and New York, at least 20 hours away by bus. No one organised them; they just arrived, spurred by internet chatter and talk radio. They swamped the local population of 3,000. Dressed in black, they marched peacefully. Some exuberantly likened their protest to the civil-rights marches of the 1960s. But the campaign to free a group of black students who beat up a white classmate somehow lacks the moral clarity of the old crusades against legal segregation and whites-only elections.

Accounts differ, but the story goes something like this. At a high-school assembly on August 30th last year, a black student asked if he could sit under a shady tree on campus where the white students usually hung out. The deputy principal said of course he could sit wherever he wanted. The next day, two nooses dangled from the tree. They were quickly removed, and the principal recommended that the three white students who hung them be expelled. But the school board let them off with a suspension, arguing that the incident was just a childish prank.

Many black students and parents were appalled, and said so. Racial tension simmered. Local media began to report on it. On September 6th, two fights broke out in the school, one of which sent a white student to the emergency room for stitches. Calm followed for 12 weeks, but then, on November 30th, someone burned down part of the school. No one knows who or why.

In the next few days, several fights erupted between black and white students. On December 4th a black student named Mychal Bell jumped a white classmate from behind and knocked him out. Then he and six others kicked him as he lay on the ground. The victim, Justin Barker, was taken to hospital. He was released in time to go out that evening, but retired home early complaining of pain. Five of the attackers were charged with attempted second-degree murder. That caused an outcry, so the charges were reduced to second-degree battery, which still carries heavy penalties.

Mr Bell was tried as an adult, though he was only 16 at the time of the attack. The prosecutor says this was because he had been arrested four times before for violent offences. He was convicted by an all-white jury. (Several blacks were summoned for jury duty, but none showed up.) He was to have been sentenced on the day of the protest, and could have received as much as 15 years in prison. But a higher court threw out his conviction and ordered that he be tried as a juvenile. He remains behind bars. The others have posted bail and are free awaiting trial.

The case has attracted widespread attention. Black talk radio seethes about it. Jasiri X, a rapper, raps that “Unless you're born black you can't understand the feeling/ They beat that boy down; they never planned to kill him.” For many, Jena symbolises how the justice system treats blacks and whites unequally.

There is evidence that it does: a meta-study by the Sentencing Project, a think-tank, finds that black criminals receive somewhat harsher sentences than whites for similar offences. Sometimes this reflects intentional bias. But often it does not. Fewer blacks can afford good lawyers. Many are ensnared by race-neutral laws that passed with the enthusiastic support of black lawmakers. Possession of crack cocaine, a poor man's drug, is punished far more severely than the powder variety. Drug offences near schools earn stiffer sentences, and in the inner city you are usually close to a school.

Leaders divided

Al Sharpton and Jesse Jackson, two veteran civil-rights leaders, are giving their full-throated support to the “Jena Six”. (That there are seven of them was not widely known until recently, since two were charged as juveniles and one of these cases was not made public.) “Jena is not just Jena,” said Mr Jackson. “There is a Jena everywhere.” He called on President George Bush and the Justice Department to intervene.

For black America's new political star, however, the issue is more delicate. Barack Obama's support for the Jena teens is guarded. “There are a number of signs that the system is not working in this case,” he said. Mr Obama did not attend the rally on September 20th, perhaps because he was busy running for president, but perhaps also because he was loth to link arms with Mr Sharpton and Mr Jackson on this issue. To capture the White House, Mr Obama needs votes from a lot of people who think that Mr Bell sounds like a nasty piece of work.

Mr Sharpton and Mr Jackson are the men every news show calls on to speak for black America. But their credentials for doing so are increasingly disputed. As a presidential candidate in 2004, Mr Sharpton struggled to win even black Democratic primary votes. Mr Jackson was a more plausible candidate two decades ago, but both men now sound stale. *Ebony* magazine ran an article last year asking “Does the Rev. Jesse Jackson still matter?”

A fair answer would be: less than before. One reason is that while Mr Jackson and Mr Sharpton talk, other black leaders are acting. Charles Rangel, the head of the House Ways and Means Committee, is quietly re-writing the nation's tax code. John Conyers, the head of its Judiciary Committee, supports the Jena teens, but spends much more time bombarding the White House with subpoenas.

Another reason for the reverends' shrinking relevance is that they have nothing new to say. Both assume, with clockwork predictability, that white racism is at the root of any African-American ill. They are not always wrong. Jena clearly has a problem: the parish voted for David Duke, a former Klansman, for governor of Louisiana in 1991. But both men have got it badly wrong in the past. For example, Mr Sharpton's championing of a girl who falsely claimed to have been raped by white policemen ended with him being successfully sued for libel.

Meanwhile, many blacks think the big problem is not racist prosecutors but the tragically large number of young black men who turn to crime. Young black men are seven times more likely to be jailed than whites, but they are also seven times more likely to murder someone, and their victims are usually black. Bill Cosby, a comedian, tours the country urging black parents to “rein in their anger” against the system and bring up their children to study, work and solve disputes amicably. Of blacks behind bars, he says: “These are not ‘political’ criminals. These are people selling drugs, stealing, or shooting their buddies over trivia.”

Mr Obama's attraction is that he sounds thoughtful rather than angry, and that he straddles the fence between Cosbyism and Sharptonality. He said of Jena that it was “not a matter of black and white”, but of “right and wrong”. He is always respectful of his black political elders, but gently laments “the inability of some on the left to acknowledge...the problems of absent fathers or persistent crime.”

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America and Iran

The limits of free expression

Sep 27th 2007 | NEW YORK
From The Economist print edition

A rough ride for Iran's president

NEW YORK is used to the drama (and the traffic) created by visiting dignitaries. But Mahmoud Ahmadinejad, Iran's president, caused more stir than most. He started by asking whether he could lay a wreath at Ground Zero as a show of respect. “Access of Evil” cried the tabloids; “Zero Chance”, and “Go to Hell”. Condoleezza Rice called the idea “a travesty”. Fairly swiftly, the visit was ruled out by the New York Police Department on security grounds. But Mr Ahmadinejad then prompted an even bigger ruckus when he appeared at Columbia University's World Leaders Forum on September 24th.

Politicians, from city councillors to presidential candidates, were appalled that an invitation had been extended in the first place. Sheldon Silver, speaker of the New York State Assembly, threatened to withhold state support from Columbia. Mitt Romney, a Republican hopeful, released a television commercial condemning the visit. But Lee Bollinger, Columbia's president, refused to withdraw his invitation. It would offend against the principle of free expression, he said: a principle revered in America, but not in Iran. Perhaps to save face, he opened the forum by blasting Mr Ahmadinejad as a “petty and cruel dictator”, questioning his “intellectual courage”, and describing his take on the Holocaust as “ridiculous”.

The campus was plastered with posters both supporting and condemning Mr Ahmadinejad's appearance. A list of children supposedly on Iran's death row hung on the campus gates. Audience members challenged him over reports that more than 200 people have been executed in Iran so far this year. Members of an ad hoc student committee wore black T-shirts with a quotation from Edmund Burke: “All that is necessary for the triumph of evil is that good men do nothing.”

Mr Ahmadinejad's remarks and answers drew applause in parts, but much of what he said was met with incredulity. He called for more research into the Holocaust as well as more investigation into the “root causes” of the September 11th attacks. When asked about the oppression of women in Iran, he retorted that they were exempt from many responsibilities “because of the respect culturally given to women”. His audience laughed out loud when he said that, in Iran, “we do not have homosexuals like in your country”.

The attention being paid to Iran, at Columbia and in Washington, is increasing pressure to do something about its fishy nuclear programme—though something short of war. The urge to turn the screws, combined with the meekness of UN sanctions, has led to new efforts to divest America's pension funds from companies—mainly foreign ones, or subsidiaries of American groups—that do business with Iran. Arnold Schwarzenegger, California's governor, will soon sign a bill that will divest California's two main public pension funds (for civil servants and teachers) from all such companies. The funds, CalPERS and CalSTRS, are the two biggest pension funds in the country; CalPERS alone manages $250 billion, of which about $2 billion will have to be pulled out of companies such as Royal Dutch Shell, Total and Alcatel, a telecoms firm. The bill's backers hope that other states will follow suit, and that eventually the federal government will be persuaded to tighten its own sanctions.

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Online networks

An ad too far

Sep 27th 2007 | WASHINGTON, DC
From The Economist print edition

MoveOn.org insults the general

ON SEPTEMBER 10th MoveOn.org, an online network of Americans opposed to the war in Iraq and President George Bush, published a full-page advertisement in the *New York Times*. It was the day that General David Petraeus, the American commander in Iraq, was to testify before Congress. “General Petraeus or General Betray Us?” ran the banner headline, adding: “Cooking the books for the White House”.

The ad played well with many of MoveOn's 3.2m members. But conservative pundits immediately attacked the network for questioning the integrity of a decorated field-commander in a time of war. Presidential candidates joined in: Rudy Giuliani ran a full-page response that attacked both MoveOn and Hillary Clinton for not adequately condemning the organisation. On September 18th Tom Davis, a Republican congressman from Virginia, demanded hearings on the pricing of the ad, which cost significantly less than the *Times*'s standard rate. And on September 26th the House, controlled by Democrats, condemned it.

The Senate also passed a Republican measure condemning MoveOn's advertisement. This put the top two Democratic presidential contenders, Hillary Clinton and Barack Obama, on the spot. Mrs Clinton voted against the censure, instead backing weaker language in an alternative measure offered by Barbara Boxer, a California Democrat. Mr Obama, after backing the Boxer measure, simply did not vote on the Republican proposal.

There is good reason for Democratic presidential candidates to be careful. According to the latest Gallup poll taken after MoveOn's advertisement ran, 61% of Americans have a favourable opinion of General Petraeus. Even so, MoveOn remains unapologetic. Eli Pariser, its executive director, says membership has increased since the ad appeared. A September 21st MoveOn e-mail stated that the group had raised $500,000 the day the Senate voted, its biggest one-day fundraising total all year. Over four days, in the midst of the row, it took in $1.6m.

Three years ago, Mr Pariser boasted that the group had “bought” the Democratic Party. This was not an outlandish claim. In the 2004 election cycle MoveOn's entities threw a whopping $50m into the presidential and congressional elections, which nonetheless turned out poorly for the Democrats. After the 2006 mid-term elections, MoveOn had an even stronger claim on the party. It spent $28m helping the Democrats retake both houses of Congress, directing cash to tight House and Senate races with notable success.

But since then the Democrats have had an awkward relationship with MoveOn and its supporters. The American left has pressed the new majority to force Mr Bush to end the war. The Democrats' early efforts to set a timetable for troop withdrawal failed, and Congress has so far opted not to withdraw funding from the Iraq effort. But MoveOn has continued to press aggressively, and never more so than when bashing the general.

For years Democrats have fought the perception that they are soft on defence and low on patriotism. Mrs Clinton even sponsored a bill to ban the burning of the American flag. The Petraeus ad will not help their case. MoveOn is trying to pull all American troops out of Iraq before 2008, making presidential politics a less immediate concern for the organisation. But Democratic candidates are the politicians most likely to do what they want.

MoveOn.org and the online community it represents will continue to try to move Democrats to the left. Mr Pariser will also have plenty of money to attract them—he expects to spend around $35m in the coming election. The cash will no doubt be welcome. Another Betray-Us episode will not be.

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Capital punishment

Cause for a pause

Sep 27th 2007
From The Economist print edition

The Supreme Court agrees to examine executions by lethal injection

AP

Get article background

Baze, hoping

FACED by a growing stream of contradictory rulings on the legality of executions by lethal injection, the Supreme Court on September 25th at last decided to review the issue itself. Abolitionists may have hoped that this would trigger a nationwide moratorium on lethal-injection executions, the preferred method in all but one of the 38 states that retain capital punishment. But not so. In Huntsville, Texas, within hours of the court's announcement, Michael Richard was put to death that way.

Texas, which has accounted for more than a third of America's 1,099 executions since the death penalty was reintroduced in 1976, was due to carry out another lethal-injection execution on September 27th—its 27th this year. Officials said the Supreme Court's announcement would not affect the state's execution docket. “We will go forward with our interpretation of the law,” said Rick Perry, the Republican governor.

This is the first time the court has agreed to examine whether the lethal three-drug cocktail used by most states violates the constitutional ban on “cruel and unusual punishment”. Injections were introduced in 1978 as a supposedly more humane alternative to other forms of capital punishment—hanging, firing squad, electrocution and the gas chamber. But far from being a reliable and painless form of death, they are frequently botched, opponents claim, and can cause excruciating pain. Even before the Supreme Court's decision, ten states had suspended executions while awaiting a definitive ruling on the issue. Now an eleventh, Kentucky, can be added, since it is the defendant in the appeal by two prisoners on Kentucky's death row, Ralph Baze and Thomas Bowling, which the court has agreed to hear. Another two states, New York and Illinois, had already imposed moratoriums for different reasons.

America, along with Japan, India, South Korea and Taiwan, is one of just a handful of democracies that retain capital punishment. But rates have begun to come down. Over the past eight years the annual total has fallen by almost half, from a peak of 98 in 1999 to 53 last year and 42 so far this year. At the same time the number of death sentences actually imposed has fallen by nearly two-thirds, while the number of inmates on death row has also begun to decline.

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Health-care insurance

For Bush, read Scrooge

Sep 27th 2007 | WASHINGTON, DC
From The Economist print edition

Health care for children arouses the president's mean streak

NEITHER fiscal restraint, nor the veto pen, has characterised President George Bush's time in the White House. America continues to run a deficit, and Mr Bush has vetoed only three bills in his whole tenure. But now that he has a Democratic Congress to battle with, the president is promising to be tougher.

Mr Bush has said he will turn away a bill that would expand the State Children's Health Insurance Program (SCHIP), a scheme that insures children from low-income families, which passed the House of Representatives on September 25th. He has also threatened to veto nine of the 12 appropriations bills that make up the federal budget, because the Democrats' budget plan exceeds his own by $22 billion.

But SCHIP is extremely popular, and so is the bill that seeks to widen it to 4m more uninsured children. Since 1997, SCHIP has covered children in families that do not qualify for benefits under Medicaid, a programme for the very poor, but who still cannot afford health insurance. Under the scheme, the federal government gives a block grant to the states, which design their own benefits and eligibility criteria. The programme expires on September 30th.

House and Senate negotiators crafted a renewal plan that would add $35 billion to the programme's cost over five years and enable states to cover families with incomes at or above three times the poverty line in certain cases. Mr Bush claims that the reformed programme will attract families who already have private insurance into the state-run programme. The Congressional Budget Office (CBO) estimates that a third of families that would enroll would have access to private coverage. But Robert Greenstein, of the Centre on Budget and Policy Priorities, argues that crowding out is bound to occur as the government tries to cover more children.

Mr Greenstein speculates that the president is really trying to force Congress to attach the health-care tax-incentive proposal he unveiled in January. An aversion to government-run health-care programmes and new taxes—a tobacco-tax increase would fund the SCHIP expansion—may also be driving Mr Bush's opposition. Or he may simply be trying to re-establish his credentials as a fiscal conservative.

Whatever the truth, the White House has made an inauspicious start of its fight with Congress over federal spending. Battle royal will be joined in November.

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Reno

Turning up trumps

Sep 27th 2007 | RENO
From The Economist print edition

How one city has survived the collapse of its biggest business

BOB CASHELL, Reno's mayor, remembers the first time he heard that California's Indian tribes were planning to build casinos. Nobody, including him, thought they would pose a threat to the city. “What?” he remembers a local casino owner asking. “Are they going to gamble in tents?” These days Mr Cashell can laugh at an attitude that turned out to be spectacularly naïve. He is also cheerful because, although its main business has collapsed, Reno is not doing at all badly.

Even more than Las Vegas, Reno was built on the moral failings of Californians—and, to a lesser extent, Oregonians and Washingtonians. At first it catered to unhappily married couples. When more liberal divorce laws removed its advantage, the city went into gambling. Just four hours' drive from the Bay Area, it was close enough to tempt the mathematically challenged. Then, beginning in the late 1990s, came the Indian casinos, scattered like snares along the highways. Last year punters lost $7.7 billion in them, according to Alan Meister of Analysis Group. Reno took in less than one-seventh as much.

For the local gambling trade, the consequences have been dire. In August 1997 Reno's casino-hotels employed 27,700 people. This August they employed 19,400. Local shops and restaurants have suffered. Parts of downtown have a desultory air, and would be even less appealing if some of the hotels had not closed and been converted into flats. In Las Vegas the casinos are the swankiest buildings around; in Reno they are the most decrepit.

Yet Reno is thriving. The metropolitan area currently employs around 228,000 people, or around 50,000 more than in 1997. Last year the average hotel room cost $74.12, according to the tourist board—still cheap compared with Las Vegas, but a lot more than the $56.50 average of four years ago. Reno has found the money to spruce up parts of downtown and has turned its river into a white-water canoeing course. Most important, it has buried the railway line that used to bisect the city.

Oddly, the explosion of tribal gambling outfits is one reason for Reno's economic recovery. The boom across the border may have killed off some of the town's casinos, but it has been a boon to its gambling consultancies and factories. Reno's second-biggest employer these days is International Game Technologies, which makes slot machines. And the hobbling of local casinos has had another good effect, says Mr Cashell. They used to block development in the city centre, fearing that it would mean higher taxes. Now they are not powerful enough to do so.

Away from the city centre, Reno is busily building warehouses. It has long been a hub for goods moving from east to west, thanks to the Union Pacific Railroad. These days it also distributes Asian goods coming in through the ports of Long Beach and Los Angeles. Retailers such as Amazon and Wal-Mart like its proximity to the big west-coast markets—and also appreciate the fact that Nevada has less red tape than California, and no personal income tax.

Reno also hopes to become a centre of green power. It lies in the Great Basin, an area where the earth's crust is thin and cracked, so it has great potential as a producer of geothermal power. Nevada is currently a distant second behind California in geothermal energy production, but it is building new plants at an impressive rate. Land is cheap: just east of Reno lies the vast desert wilderness. And demand is strong. Nevada has insisted that its power companies obtain 20% of their electricity from renewable sources by 2015.

Most surprisingly, perhaps, the slot machines are beginning to ring again. Although Reno's gambling revenues are still well below their 2000 peak, they have drifted upwards in the past three years. Richard Wells, who tracks the industry, has two explanations for that. First, he points out, the casinos take about a third of their money from locals, and Reno's population is growing. Second, supply has created demand. Indian casinos have educated a generation of Californians in the art of losing money. And

gamblers are superstitious folk who do not like to remain in one place for long. Once they decide that the local Indian casino is “cold”, they may well head over the border to Reno.

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Lexington

Can Hillary be stopped?

Sep 27th 2007
From The Economist print edition

Illustration by Kevin Kallaugher

It's looking less likely by the day

THIS has been a glorious fortnight for Hillary Clinton. On September 17th she unveiled her health-care plan—inevitably dubbed Hillarycare 2.0—to widespread applause. On September 23rd she appeared on no fewer than five Sunday talk shows. Three days later she delivered yet another polished performance in a Democratic debate in New Hampshire.

The aim of this blitzkrieg is to capture the most valuable prize in politics: inevitability. Mrs Clinton has led the Democratic field for months. Barack Obama outshone her when it came to charisma and fund-raising. John Edwards beat her in producing policy proposals. Yet Mrs Clinton's lead has only solidified.

Can she now kick it up a gear? Can she transform the primary race into a coronation? George Bush already thinks that she will win the Democratic nomination. The Republican candidates, particularly Rudy Giuliani, are positioning themselves as “Hillary-slayers”. And Mrs Clinton's Democratic rivals are paying her the ultimate compliment of concentrating their fire on her rather than on each other.

This has inevitably generated an anti-Hillary backlash in the punditocracy. Political journalists hate a runaway winner. The path from here to the Democratic nomination, they argue, is strewn with landmines and Hillary-traps. Perhaps; but it is striking how thin the anti-coronation arguments turn out to be.

The first argument is that nothing is inevitable in politics, particularly in a world in which the internet can turn a minor gaffe into a mighty cacophony. More than two-thirds of the Democrats who voted in the 2004 Iowa caucuses did not make up their minds until a month before they voted. Four in ten Iowa voters and five in ten New Hampshire voters decided only in the last week. John Kerry was lagging in third place until a week before the Iowa caucuses.

The second argument is that Mrs Clinton is locked in a tight three-way fight in Iowa. Mr Edwards, in particular, has an impressive organisation and a loyal following in the state. The compressed primary season could turn Iowa into a powerful slingshot: Mr Obama or, more probably, Mr Edwards could shoot straight from a victory there to the head of the pack.

The first argument is obviously true as far as it goes: “inevitability” is a dangerous word when a personal scandal could blow Mrs Clinton's campaign apart. Still, the situation today is very different from 2004,

when Iowa's unfortunate Democrats were confronted by a left-wing insurgent, the unattractive Howard Dean, and a rabble of second-division candidates.

The second argument puts far too much emphasis on Iowa. Mrs Clinton's relative weakness there is swamped by her strength elsewhere. She is ahead in national opinion polls by about 20 points, a lead she has sustained for months. She is also ahead in New Hampshire and South Carolina, where her nearest rival, Mr Obama, has been losing traction since late summer. Mrs Clinton is currently crushing Mr Obama in the political futures markets by as much as 55 points.

These poll numbers are built on rock. Mrs Clinton is formidably disciplined and knowledgeable. And she has the best political machine in the business—built up over decades and honed by relentless battle with the "vast right-wing conspiracy". The machine boasts most of the Democratic establishment's mainstream thinkers. But it also has teeth. Earlier this summer the Clintonites forced *GQ*, a men's magazine, to drop a critical story by threatening to pull a cover interview with her husband.

The third argument against her is simply that Hillary is Hillary. Do Democrats really want a candidate who has so much baggage, wayward husband and all, from the 1990s? And do they really want to run the risk of handing the Democratic crown to such a polarising figure?

The Bill factor

The simple answer to both questions is "yes". Most Democrats associate the Clinton years with peace and prosperity rather than stained dresses and disappearing furniture. Bill Clinton left office with a job-approval rating of 66%. Three-quarters of Democrats, and 53% of voters in general, would like him to play an active role in a future Clinton administration. Nearly nine in ten Democratic voters (88%) express a positive view of Hillary's candidacy; 38% express a very positive view.

Democrats are right to be nervous about polarisation: polls show Mr Giuliani is close behind Mrs Clinton in a head-to-head race. But Mr Bush has proved that polarisation is far from fatal, provided you can combine it with a ruthlessly disciplined campaign. Mrs Clinton does not have to paint America blue; she only has to win one more state than John Kerry. And Mr Giuliani seems less impressive in person than he does in the polls. His speeches are poorly prepared and convoluted, and he is given to silly gimmicks, such as stopping in mid-speech to the NRA to take calls from his wife on his cell-phone.

Moreover, Hillary 2007 is not Hillary 1993. She has shown an impressive ability to learn from her mistakes. She has also moved sharply to the centre: witness her success in winning rural votes in upstate New York in 2006, and her ability to work with former Republican tormentors in the Senate.

Both qualities have been on display in recent weeks. Hillarycare 2.0 carefully avoids the *dirigiste* mistakes of the original product—it allows people who are happy with their existing insurance to keep it, and puts "choice" at the heart of the policy. Quizzed about her Iraq policy on the talk shows, Mrs Clinton firmly refused to commit her administration to a precipitous troop withdrawal and repeatedly emphasised that the world is a dangerous place. Inevitable is too strong a word. But Mrs Clinton looks much more like a president-in-the-making than any of her opponents, Republican or Democratic.

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Canada's economy

The loonie takes wing

Sep 27th 2007 | OTTAWA
From The Economist print edition

Illustration by Claudio Munoz

A strong currency reflects booming commodity exports and sound public finances. But not everyone is cheering

Get article background

IT HARDLY came as a surprise when, on September 21st, the Canadian dollar crossed a symbolic threshold and overtook its American counterpart in value for the first time since 1976. Since January 2002, when Canadians needed C$1.61 to buy a greenback, the loonie (so nicknamed after the aquatic bird depicted on the dollar coin) has been pushed up by world demand for Canada's commodities. Yet even hard-bitten currency traders cheered out loud as the loonie inched towards parity, and then beyond. David Watt, a currency strategist at RBC Capital Markets, likened the moment to the decisive seventh game in an ice-hockey final. The feeling is that “Canada is back”, he said.

The celebrations went beyond the trading rooms. Newspapers trumpeted the vigour of a currency once derided by *Barron's*, an American financial weekly, as the “northern peso”. Students held parity parties, as did some business groups. Shoppers jammed border crossings last weekend, confident of finding bargains on the other side. There were complaints, too, especially from manufacturers. But they were drowned out by nationalist glee. “When the [Canadian] dollar was trading just above 60 [American] cents, people thought there was something wrong,” says Darrell Bricker of Ipsos-Reid, a polling firm. “Now it seems that we are doing something right.”

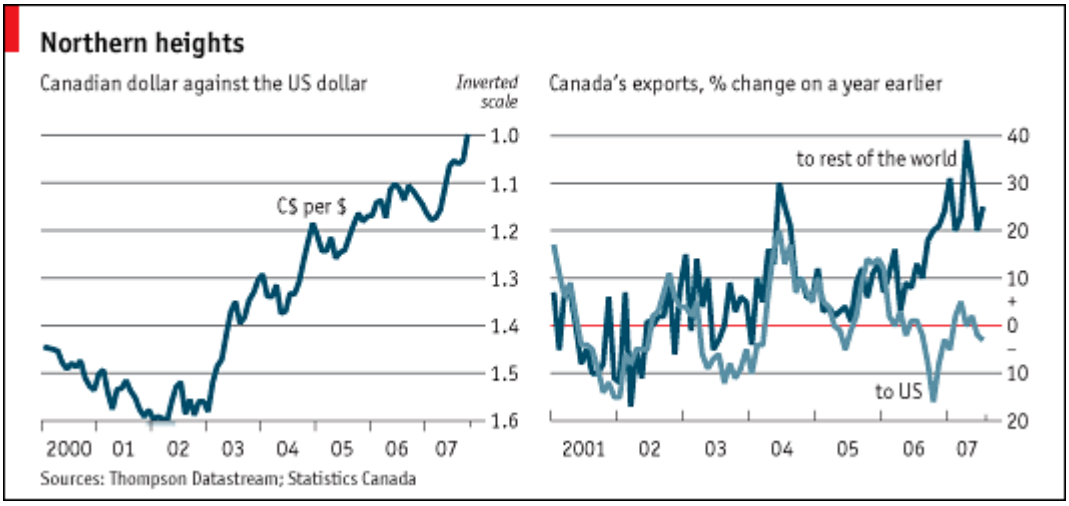
That and good fortune: the industrialisation of China has boosted the world price of Canada's exports of oil, gas, minerals, metals and farm products. But the country has also done its housework: ten years of federal budget surpluses and a current-account surplus contrast with the twin deficits in the United States. In the end it was the “subprime” mortgage woes south of the border that elevated the loonie over the sickly greenback (or should that be the “Yankee lira”?).

But a strong loonie is not problem-free for Canada, whose economy, like that of Mexico (see article), is tightly integrated with that of the United States by the North American Free-Trade Agreement. Ontario's carmakers, tied into American supply chains, were already struggling with high energy costs and a weak market across the border; the province's pulp and paper exporters face similar difficulties. According to Jayson Myers, who heads an association of manufacturers and exporters, “the real problem isn't the [exchange] rate, it's the rapid rise”.

Or perhaps it is Canada's weak productivity and unambitious businessmen. Company profits are healthy but investment remains sluggish. Because of the exchange rate, the price of capital goods fell by 10%

over the past year, but purchases rose by only 5%, according to Philip Cross of Statistics Canada.

In the 1990s Canadian politicians laboured to rebrand their country as glitzy and high-tech. There are a few such companies: Research In Motion, an Ontario company, makes the BlackBerry; CAE of Montreal produces flight simulators; Bombardier manufactures regional jets. Now the mainstay is the familiar one of natural resources, especially oil and mining—an “underground economy”, quips Mr Cross, though he adds that much of this is technologically sophisticated. In the west, where many of the natural resources lie, manufacturers who cater to local markets are doing fine. For several years, the economy has looked distinctly lopsided: the GDP of energy-rich Alberta expanded by 6.8% last year, compared with Ontario's 1.9% and Quebec's 1.7%.



Exporters have begun looking for farther-flung markets (see chart). Many commodity exporters are focusing on Asia, but Stephen Harper, the prime minister, has also tried to strengthen Canada's traditionally neglected ties with Latin America.

Last time the loonie flew this high, in 1976, it quickly lost altitude again. A separatist government was elected in Quebec, and worries about national unity undermined the currency. Nowadays, support for separatism in Quebec is much weaker. As long as Chinese demand keeps commodity prices high, the betting is that the economy and the loonie will stay aloft (see article). David Dodge, the outgoing governor of the central bank, says he thinks that prices for minerals and energy will remain strong for the foreseeable future.

If he is right, that will help Canada ride out a looming recession south of the border. But *Schadenfreude* is a dangerous sport. Although Canada has withstood mild American slowdowns in the past, a deeper slump across the border might well bring the loonie, and Canadian pride in it, down to earth with a bump.

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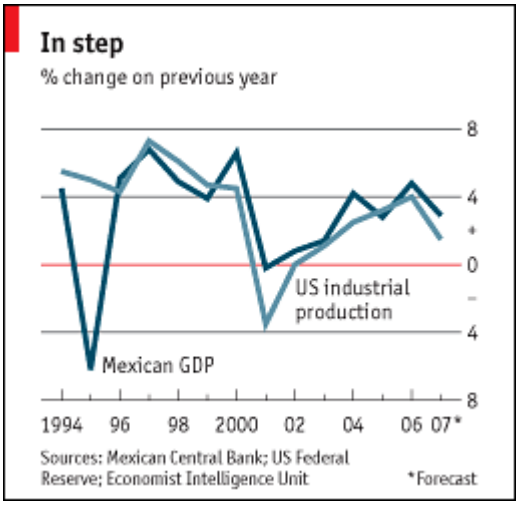
Mexico's economy

Braced for contagion

Sep 27th 2007 | MEXICO CITY
From The Economist print edition

More resilient but still exposed



TIME was when the Mexican economy moved to the rhythm of the oil price. But since the signing of the North American Free-Trade Agreement in 1992, it is the pace of industrial production in the United States that sets the beat south of the border (see chart). When the American economy slowed in 2001, Mexico suffered two years of stagnation. As fears of an American recession deepen, will it be different for Mexico this time?

More than 70% of Mexico's exports go to the United States. Manufacturing in its northern states is bound to slow in line with its American counterpart. But many economists see grounds for hoping that the country can ride out a shallow recession across the border more successfully than it did in 2001.

Mexican consumers are spending more than they did in the past. And this time policymakers may not have to rein them in. Indeed, the government is better placed to stimulate the economy if that is needed. The government's finances are close to balance; most government debt is now long-term and denominated in pesos, rather than dollars. Mexico's still modest credit market has continued growing; bank lending rose by 26% in the year to July. Housebuilding, backed by government programmes, remains robust. Mexico's president, Felipe Calderón, this month gained approval for a tax reform which should pay for extra public investment in roads and other infrastructure.

Recently, much foreign direct investment has gone to services rather than manufacturing. That should continue, and would help to cover any current-account deficit. Officials think that tourism revenues will not drop much even if the American economy slows. Guillermo Güémez García, a deputy governor of the central bank, argues that although some Americans may stay at home, others will choose Mexico instead of more expensive and distant destinations. He also notes that because the peso has tracked the dollar, Mexican exporters may gain market share across the border at the expense of rivals battling with stronger currencies.

The finance ministry still reckons that Mexico's economy will grow by 3.7% in 2008. Héctor Chávez of Banco Santander, a Spanish-owned bank, says that if the American economy grows at 2%, Mexico can manage 3%. But the latest economic data from the United States make all these figures look optimistic. A sharper slowdown will strengthen the government's case that Mexico's state-owned oil industry, whose output is falling, needs reform and liberalisation. For once, a crisis—if it proves to be one—really could be an opportunity.

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Peru

Fugitive returned

Sep 27th 2007 | LIMA
From The Economist print edition

A landmark extradition sees Alberto Fujimori facing justice

Reuters

FOR much of his decade as president between 1990 and 2000, Peruvians saw Alberto Fujimori as a saviour. He conquered the hyperinflation bequeathed by his predecessor, Alan García, and restored growth. With Vladimiro Montesinos, his shadowy intelligence chief, he crushed the Maoist terrorists of the Shining Path and locked up their leader, Abimael Guzmán. Now the saviour has joined Messrs Montesinos and Guzmán behind bars.

There was always a dark side to Mr Fujimori. Though twice freely elected, he shut down his country's Congress in 1992 and used other strong-arm methods. He fled to Japan in 2000 after trying fraudulently to win a third, unconstitutional term. In November 2005 he flew to Chile, in an apparent bid to slip back into Peru and rally his supporters for last year's presidential election. There he was arrested at the Peruvian government's request.

In a decision hailed by human-rights campaigners, Chile's Supreme Court ruled on September 21st that Mr Fujimori should be extradited to Peru to face seven sets of charges. These include complicity in the actions of the Colina Group, an army death squad that killed 25 civilians in two separate incidents (one of them involved the slaughter of those attending a barbecue which the intelligence service believed was to raise funds for Shining Path). Most of the charges relate to corruption: the most sinister feature of Mr Fujimori's rule was the unlimited power granted to Mr Montesinos to bribe and extort on a scale that prosecutors say topped $1 billion.

Mr Fujimori claims not to have known the doings of his spy chief. But Mr Montesinos, who has already been found guilty on several charges and is serving a 20-year jail sentence, will be a key figure in his trials. Mr Montesinos and several members of the army are still being tried for the actions of the Colina group.

The Fujimori case had the potential to strain Peru's relations with Chile, which while much improved are easily inflamed by hurt from defeat in 19th-century wars. But Chile's Supreme Court stuck to the letter of the country's law. In approving extradition while rejecting six of the charges, it mainly based itself on Chile's own penal code rather than on international norms.

Nevertheless, some lawyers see the verdict as a wider turning point. The court followed the ruling of Britain's House of Lords in the case of Chile's former dictator, Augusto Pinochet, in dismissing defence arguments that Mr Fujimori, as a former head of state, enjoyed immunity from criminal prosecution.

José Miguel Vivanco of Human Rights Watch, a New York-based group, points out that the Fujimori case marks the first time that a court has extradited a former head of state for trial in his own country, rather than by an international tribunal. In doing so, Chile's Supreme Court, one of the more formalistic and conservative in Latin America, has up-ended the region's long tradition of granting political asylum to former rulers. Under that tradition, Panama shelters several disgraced presidents, including Haiti's Raoul Cédras.

Another former Haitian dictator, Jean-Claude Duvalier, this week asked forgiveness of his country. Mr Duvalier, in exile in France since 1986, is believed to want to return home after running out of money. But the country's president, René Préval, said his government would press ahead with efforts to recover money he believed was stolen during Mr Duvalier's rule.

Mr Fujimori's case will be a test for Peru's judges and for Mr García who, in an irony of history, is again its president. The judiciary was undermined when Mr Fujimori appointed pliant judges in the 1990s. It has since taken steps towards greater professionalism. The defendant enjoys certain privileges: as a former head of state, he will be tried by the Supreme Court, and under international law he can be tried only for those matters on which the Chilean judges approved his extradition.

In 1992 Mr García himself sought asylum in Colombia, fearing corruption charges from Mr Fujimori (they were eventually dropped). Since winning last year's election, having campaigned as a free-marketeer, he has relied for a legislative majority on the backing of Mr Fujimori's supporters. They are now led by Mr Fujimori's daughter, Keiko, who won 603,000 votes in Lima, three times more than any other congressional candidate.

That alliance is now under strain. Mr Fujimori is being held at a police base, rather than under house arrest as he hoped. Mr García says his former adversary's fate should be decided strictly according to the law. Ms Fujimori, who is likely to run for the presidency in 2011, calls her father the victim of a vendetta.

In trying to return to Peru, Mr Fujimori seemed to hope that he would again be greeted as a saviour. But Peru has moved on: in polls, a majority say they would never vote for him. Ms Fujimori has some of her father's political talents, and Peru's politics is notoriously unpredictable. But rather than the return to the presidential palace he dreamed of, it may be Mr Fujimori's fate to join Mr Montesinos and Mr Guzmán in the high-security jail he himself ordered built in a naval fortress.

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Guyana

Dreaming of oil

Sep 27th 2007 | GEORGETOWN
From The Economist print edition

An offshore resolution

IT IS a thinly populated slice of Atlantic coast backed by a large tract of rainforest. But Guyana reckons it may have struck riches, thanks to a decision by a United Nations tribunal on September 20th. This awarded most of a disputed area of sea to Guyana rather than its neighbour, Suriname. “Think Kuwait,” dreamed an upbeat foreign diplomat.

Not quite, or at least not yet. But the United States Geological Survey reckons that the muddy waters of the Guyana-Suriname basin may hold more undiscovered oil than the proven reserves of the North Sea. What has blocked exploration until now has been the confused borders left behind by former colonial powers. In 2000, a Surinamese gunboat threatened a rig hired by a small Canadian company, CGX Energy, halting its search for oil 160km (100 miles) offshore. When talks failed to find a compromise, Guyana referred the tiff to a tribunal whose verdict is binding under the UN Convention on the Law of the Sea.

News of the settlement saw CGX's share price leap to $2.50, up from 26 cents a year ago. But though the geology is promising, nobody has yet found any oil. Kerry Sully, CGX's president, is bullish but does not expect to drill before 2009.

If there is oil, some Guyanese fear that it will bring problems—especially corruption—as well as benefits. They note that in neighbouring Trinidad oil and natural gas have brought an economic boom but not an instant fix for social problems. In Guyana political squabbles have blocked the appointment of a Public Procurement Commission, a body set up by law four years ago to oversee government contracts. But the tribunal's ruling brought a rare moment of political harmony. For perhaps the first time in 50 years, the mainly Afro-Guyanese opposition People's National Congress hailed a success by its mainly Indo-Guyanese political foes in the government of President Bharrat Jagdeo.

In Suriname, the fractious opposition blames the government for losing, but the damage does not run deep. A Spanish company, Repsol, plans to drill for oil in its undisputed waters next year, and Denmark's Maersk, will follow soon after. A separate border dispute over a triangle of uninhabited rainforest near

the Brazilian border remains unresolved. But there are now strong incentives for the two countries to collaborate. One promising geological feature, known as the Wishbone target, straddles the new marine boundary, and cannot be exploited without an agreement to share whatever it may contain.

A bigger problem for Guyana is its longstanding disagreement with Venezuela, which claims almost three-quarters of its land area and a big slice of sea where both CGX and Exxon have Guyanese concessions. Venezuela's case is weak: it accepted a land border fixed by arbitration in 1899 only to reject it in the 1960s.

Relations are patchy. Guyana benefits from oil supplied on easy terms under Petrocaribe, a Venezuelan aid scheme. But there have been some nasty border incidents: a Guyanese was killed by Venezuelan national guards last October on the Cuyuni river. Unlike Suriname and Guyana, but like the United States, Venezuela has not signed the UN Convention on the Law of the Sea. Barbados and Trinidad settled their maritime border by arbitration last year. Time, perhaps, for Venezuela to learn from its smaller neighbours.

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The Koreas

Pyongyang or bust

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AP

South Korea's Roh Moo-hyun plays down expectations for an historic summit

GLIDING across the border in a 30-limousine convoy, Roh Moo-hyun, South Korea's president, will on October 2nd visit Pyongyang and meet North Korea's *capo*, Kim Jong Il, for three days of talks. It is only the second summit between the two sides since their estrangement in a civil war over half a century ago.

The first, seven years ago, was between Mr Kim and Mr Roh's predecessor, Kim Dae-jung, who launched a "sunshine policy" towards the North. The meeting generated euphoria among South Koreans and won their president a Nobel peace prize, but produced little else. Kim Jong Il never came to Seoul, as he promised he would. Relations deteriorated between North Korea and the United States, South Korea's protector. And last year the North tested a nuclear bomb, to the region's dismay. As for the summit itself, it later transpired it was bought with cash passed under the table to the Dear Leader.

Mr Roh knows things have changed. The national mood towards reconciliation is subdued, even sceptical. Lacking Kim Dae-jung's charisma, his own political authority is at rock-bottom, after an ineffective presidency; he stands down at the end of the year. The only constant is that the summit's agenda is whatever Mr Kim decides it will be, and that he is not letting on: so, as one of Mr Roh's advisers delicately puts it, the summit is "open-ended".

While dampening expectations, Mr Roh clearly hopes for a breakthrough in one or more of three areas: in reducing tensions and furthering peace on the Korean peninsula; deeper economic co-operation with the benighted North; and reconciliation of the many thorny issues—such as the tens of thousands of families separated since the Korean war—that might bring the distant goal of unification a tad closer. Above anything, Mr Roh appears to want to come home waving a scrap of paper with "peace" written on it.

Hawks, particularly in America, say that Mr Roh's ambitions risk running ahead of the "six-party" process in which America, China, Japan, Russia and South Korea are hoping to get North Korea to abandon its nuclear ambitions. Too much offered by the South might lead the North to hope for aid without scrapping its nuclear programmes. It is not certain that Mr Roh will even bring up the nuclear issue with Mr Kim. Meanwhile, say some of Mr Roh's critics, peace with the North is a matter for all the former combatants of the Korean war, China and America included.

Mr Roh's men deny there is any risk. The president's hopes for economic co-operation and reconciliation are being entertained only because of progress on denuclearisation, they say; in July, North Korea closed its Soviet-era reactor at Yongbyon and has since promised to declare and disable all its programmes by the end of the year. They argue that it will do the liberal Mr Roh no favours if he returns with a deal that is

unacceptable to his successor as president (the clear favourite is Lee Myung-bak, whose right-wing Grand National Party has a harder line towards North Korea). As for economic co-operation, says a close adviser, it has been far too one-sided to date, with North Korea simply taking South Korean money, fuel-oil and rice, much of which finds its way to the armed forces. From now on, the South expects much more—starting with the chance to invest in the North's rich mineral resources and cheap labour. To press home the point, two-dozen business executives will accompany Mr Roh.

Some expect the North to go surprisingly far. Chung-in Moon of Yonsei University, an architect of the "sunshine policy", argues that decrepit North Korea is on the brink of opening up just as China did three decades ago, because Kim Jong Il recognises that his legitimacy now rests on future prosperity.

But outside help is hard to imagine without progress on the nuclear issue. The United States classes North Korea as an enemy; it also brands the country as a state sponsor of terrorism. Both hobble North Korea's ability to trade. America offers to lift these curses in return for a real disablement of North Korea's nuclear capabilities.

On September 27th the six-party talks reconvened in Beijing. Their outlook was clouded by a mysterious recent Israeli air strike at a Syrian target that some claimed was a North Korea-assisted nuclear facility. North Korea vigorously denies this and American diplomats say they have seen no intelligence confirming it. Negotiators, wanting nothing to distract North Korea from a timetable for denuclearisation, are inclined to gloss over the matter. For the timetable, as it is, involves some quite devilish details.

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Japan's new prime minister

Land of the rising shadow

Sep 27th 2007 | TOKYO
From The Economist print edition

Grey, old and competent. Just what the Liberal Democratic Party ordered

Japan's politics

HE HAD, he said, drawn the short straw: on September 25th Yasuo Fukuda was voted by the lower house of the Diet (parliament) to be Japan's new prime minister. But for how long? This grey eminence of the Liberal Democratic Party (LDP) replaced an exhausted Shinzo Abe, who two weeks ago announced his resignation and then checked into hospital. Mr Abe's year in office was disastrous for the LDP. In late July the opposition Democratic Party of Japan (DPJ) gained control of the Diet's upper house. The DPJ will now do all it can to force a general election.

Whereas most prime-ministerial candidates, it seems, are the grandsons of former prime ministers, Mr Fukuda is the first Japanese politician to follow his father into the top job. Until now he has been a man, by his own confession, of the LDP's shadows, and at 71 he is pretty old even by Japan's standards to be prime minister. Yet he has a reputation for competence and common sense, and seven of the party's eight factions backed him.

Acting fast to form a new government, he has drawn on those factions' heavies. Nobutaka Machimura, the leader of the biggest faction, who had served for a month as Mr Abe's foreign minister, becomes Mr Fukuda's chief cabinet secretary and in effect government gatekeeper. Masahiko Komura, defence minister under Mr Abe, becomes foreign minister, a post he has held before, while the able Shigeru Ishiba returns to defence. As for the new party leadership, Mr Fukuda has named faction heads to all four top posts.

The DPJ soon accused Mr Fukuda of returning to the LDP's bad old days, before Mr Abe's iconoclastic predecessor, Junichiro Koizumi, of spreading around jobs for the boys and handing power to the bureaucrats. This is undeniably true. At the same time, DPJ members privately admit that this is a formidable bunch for the party's bruising head, Ichiro Ozawa, to fight. In their tactics they are as likely to try killing the DPJ through conciliation as much as confrontation.

As for the new government's liberalising bent, it is too soon to write Mr Fukuda off. Although sometimes a master of obfuscation, he has been clear on the matter: with its population ageing and shrinking fast, Japan must boost productivity. With high levels of debt, the government must also balance its books—by 2011, before interest payments, insists Mr Fukuda, reiterating an LDP commitment. Certainly, steps will be taken to help presumed victims of reform or those whom the economic recovery has not touched. There is talk of raising the minimum wage. The new government (which keeps 15 out of the 17 in Mr Abe's final cabinet), as well as the party leadership, has its share of budget-balancers and free-marketeers. Bold new reform initiatives can hardly be expected. But slowly, greyly might do it.

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Fiji

The utility of peacekeeping

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Without it, the army would be less prone to coup-making

Get article background

FRANK BAINIMARAMA, Fiji's army commander and coup leader, was in New York this week to boast to the United Nations General Assembly about his eight-month-old government's achievements. Now serving as interim prime minister, he has good reason to be grateful to the UN. In the days before he seized power on December 5th, Kofi Annan, then the secretary-general, raised questions about the future involvement of Fiji's soldiers in UN peacekeeping operations. But under Mr Annan's successor, Ban Ki-moon, blue-helmeted Fijian soldiers are still being flown to the world's trouble-spots.

Without peacekeeping missions overseas, it is unlikely that Fiji's army would ever have become strong enough to seize power. When the British left in 1970, there were only around 200 serving military personnel. UN peacekeeping operations in Lebanon and Sinai generated a tenfold increase by 1986. The next year, Fiji witnessed its first military coup. Some 20,000-25,000 Fijians have been deployed on UN missions since independence—a lot for a country of fewer than 1m.

Peacekeeping has also provided an escape-route for disgruntled senior officers. In May 2000 Fiji saw its second coup, led by a civilian, George Speight, but backed by a faction from an elite army squadron. Other senior officers, including Viliame Seruvakula and Filipo Tarakinikini, rallied troops against Mr Speight and defeated that coup. But both men then fell out with Commodore Bainamarama. They enlisted with the UN. Much of the senior, often Sandhurst-educated, officer corps left or were dismissed from Fiji's armed forces after 2000, enabling Commodore Bainimarama, a naval officer who has served with the UN in Sinai, to promote his own placemen. (Even these loyal officers have been redeployed since the latest coup, to senior positions in the civil service.)

The UN does not prohibit successful coup-leaders from attending its meetings, and the commander's New York trip is a chance to improve his regime's standing. Suspended by the Commonwealth and under scrutiny by the European Union, his government responded by agreeing to establish a clear timetable for fresh elections.

That was cast in doubt, however, by the reimposition of emergency regulations on September 6th, by the continued suppression of dissent, and by a statement from the shadowy Military Council that the deposed governing party will not be allowed to contest future polls. The commander recently said that politicians were “not ready” to run the country. As a result, Fiji risks losing around $254m in promised EU aid, badly needed at a time when tourist numbers are declining, the gold industry has collapsed and the country's

main export industry, sugar, has stagnated.

All of which gives even greater importance to peacekeeping. Remittances from peacekeepers now make up a big chunk of Fiji's foreign-exchange earnings. And with the demand for their services growing, there is understandable reluctance to limit recruitment. Yet in Fiji, as in Nepal and Bangladesh, two other big contributors to UN peacekeeping, keeping the peace abroad has big repercussions at home.

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India

Batting for the family

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Rahul Gandhi continues his diffident climb to the top of Indian politics

Get article background

"YOUNG blood in a billion hearts" screamed the front page of the *Indian Express* newspaper on September 25th, a day after Rahul Gandhi, who has a better chance than most of one day becoming the country's prime minister, was appointed a general secretary of the Congress party, in charge of youth affairs. The headline was not for him, however, but for India's young cricket team that had just won the "Twenty20" World Cup in South Africa, beating Pakistan by a whisker. Congress supporters danced in the street outside the party's Delhi headquarters after Mr Gandhi's appointment. But they were soon subsumed by much more spontaneous countrywide fireworks and other celebrations for the cricketers.

Recent leaders of the Gandhi dynasty, descendants of Jawaharlal Nehru, India's first post-independence prime minister, have been reluctant converts to politics. Rajiv Gandhi, a prime minister in the 1980s, was pulled in after the death of his brother, Sanjay, against the wishes of his Italian-born wife, Sonia. She now leads the party but was herself loth to take the job when her husband was assassinated in 1991. She eventually did so in order to save the dynasty and the party from collapse. Since then she has worked to ensure the dynasty survives. Rahul, her shy 37-year old son, is her choice as a future prime minister, above his more outgoing and politically astute younger sister, Priyanka.

In private, Mr Gandhi is an intelligent conversationalist, anxious to talk about building a better India. But he has not grown in stature since he became a member of parliament in 2004, and seems more at home with development agencies than rough Indian politics. He did not do well when he led the Congress campaign in his home state of Uttar Pradesh earlier this year, and he has been resisting his mother's efforts to persuade him to take a national post.

Now his reluctance has been overtaken by events. Political divisions over India's proposed nuclear deal with America could bring forward the general election due by May 2009, when many political analysts had been expecting Mr Gandhi to take a top job. And there are important state elections in the coming months. Many believe Manmohan Singh, the current prime minister, was put in his post in 2004 by Sonia Gandhi as a stopgap until Rahul Gandhi was ready. Mr Singh, who was 75 this week, is recovering from surgery on September 15th and working from home. It is not certain how long he will carry on after the next election.

Mahesh Rangarajan, a political analyst, says it is "inevitable" that Mr Gandhi will become Congress's parliamentary leader. But his becoming prime minister will depend on other parties. Congress has no immediate prospect of winning a clear majority on its own and will need a coalition. With the help of a team of mostly young politicians formed this week to steer him, Mr Gandhi now has to try to rebuild Congress's grassroots support. The team has to turn him into a credible national leader. As one newspaper put it, referring to Mahendra Singh Dhoni, the exuberant 26-year-old Twenty20 captain , "Congress wants Dhoni magic in Rahul."

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Pollution in China

Something in the air?

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Locals think they know why their children are sick

LIKE many other Chinese companies, PetroChina makes much of its eagerness to promote “harmonious communities”. The state-controlled oil giant listed its shares on the New York Stock Exchange in 2000. Yet critics in China allege this has not always made it more responsible. Take the plight of one community in China's far north-east.

The Hongwei Petrochemical Park is just outside the city of Daqing. Celebrated in Maoist myth as the scene of heroic industrialisation, Daqing is still the fourth most productive oilfield in the world. Of the six companies operating in the park, the largest is Daqing Lianhua, a PetroChina subsidiary.

Steven Ribet

Looking for an answer

For eight years residents of Hongwei have been waging a fruitless struggle to find the cause of high rates of serious illness in their midst. Out of a permanent population of 3,400, at least ten children have been born with an affliction diagnosed by local doctors as cerebral palsy. It is unprecedented for the incidence of cerebral palsy to “cluster” in this way. Foreign experts think from the symptoms and clustering that the disease is akin to Minamata Syndrome, a neurological condition caused by exposure to mercury in the womb. Cancer rates are twice the national average.

Legal efforts to establish a link between the plant and the illness have failed. But in 2003 the local government acknowledged the seriousness of Hongwei's pollution and called on Daqing Lianhua to relocate the villagers. But nothing has come of this, nor of offers to find jobs at the firm for protesting locals.

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Lebanon

Who's for president?

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AP

Finding a new head of state may not stem the slide back towards bloody chaos

REVOLUTION, war, assassination, terrorist attacks, foreign intrigue, sectarian strife, a government paralysed and polarised between savagely bickering factions: it is hard to think of any devilish twist that Lebanon's recent saga, like a television drama desperate to improve its ratings, has not taken since the country began to break from the hold of its larger neighbour, Syria, three years ago. Yet the plot is still getting thicker.

The nastiest recent episode was grimly familiar. On September 19th, a parked Mercedes car exploded at a busy crossroads in the capital, Beirut, killing Antoine Ghanem, a member of parliament from the ruling majority, and four others (their funeral is pictured above). A Christian from the small, right-wing Phalange Party, Mr Ghanem was the 11th prominent opponent of Syria to be so targeted. Only three of those intended victims escaped with injuries, and dozens of ordinary Lebanese have perished in the spate of bombings. Not a single culprit has been caught so far.

But on September 25th the Lebanese drama switched abruptly from tragedy to something closer to farce, as its parliament, which has in effect been suspended since its speaker joined an opposition boycott of it last December, reconvened at last.

Constitutionally, the assembly must elect a new president of the republic before the term of the widely disparaged and doggedly pro-Syrian incumbent, Emile Lahoud, expires on November 24th. By tradition, it must choose a Maronite Christian for the post. But rules also require a two-thirds quorum of the 128 members, at least in the first round of voting. When the bell rang for deputies to take their seats, too few showed up to have a vote. The speaker adjourned the meeting until the end of October. So Lebanon's politicians could not even agree who is to act in the leading role for the next round of drama.

The ruling coalition, a Sunni Muslim-Druze-Christian grouping known as the March 14th alliance, which is backed by Western countries and Saudi Arabia, has said it may now elect a president merely with the simple majority it can still muster, despite the attrition-by-murder in its ranks. The opposition, which groups the Shia party-cum-guerrilla-army Hizbullah with disgruntled Christians, and is backed by Syria and Iran, has declared such a move illegal. It would amount to a declaration of war, trumpeted the leader of the main Christian opposition party, Michel Aoun. “Countries that support such a president should send their armies to protect him,” said the former general, who believes his tactical alliance with Shia parties bolsters his own credentials for the post.

Considering that two past Lebanese presidents were blown up before settling into office, that America, Israel and Syria have all repeatedly sent armies into the country in ultimately vain efforts to prop up protégés, and that some 150,000 people died in the civil war of 1975-90, such talk is not taken lightly. Adding to the gravity is the great extent to which Lebanon's internal schism mirrors the polarisation of the wider region. It pits those who retain some faith in the West, and would rather seek accommodation with Israel, against others who demonise America and dream of liberating Jerusalem.

Events such as the invasion of Iraq, the war with Israel last year in which some 1,200 mostly civilian Lebanese died, and the serial murders in Beirut have fortified such convictions, often embittering those who hold them. To many Lebanese, Hizbullah is an Iranian tool that brought ruin by provoking Israel, whereas its supporters accuse such critics, who include many in the ruling coalition, of collaborating with the enemy. While the March 14th alliance bluntly blames Syria for killing its leaders, its foes either whisper that the traitors deserve such a fate or hint that the killings are part of a plot by Israelis or fanatical right-wing Christians to wreck Lebanon.

The intensity of such passions has grown, fears one foreign diplomat, to the point where another assassination or a big event farther afield, such as a military attack on Iran, could reignite civil war. There is no hope of a solution in Lebanon, says another diplomat, until something big rejigs the regional equation, such as America or Syria taking a sharp new policy turn that might tip the local power balance.

Yet, just as Beirut's traffic manages to flow without much policing and ordinary Lebanese, though economically squeezed by the effects of political uncertainty, have coped for months without a fully functioning government, the outcome may not necessarily be catastrophic. Though they boycotted this week's sitting, opposition members of parliament did linger in the corridors to chat with the foes they had not seen since last winter. Amid a flurry of meetings between leaders of opposing factions, talk of reaching a compromise over the presidency grew louder.

Mr Aoun's Shia allies are known to be less than enthusiastic about “their” candidate, a maverick populist whose loathing for Syria runs as deep as his dislike of what he regards as the corrupt and feudal leaders of the ruling majority. The March 14th group, for its part, would prefer a staunch anti-Syrian from their own camp, but know that no effective president can afford to alienate the Shias, who make up a third of Lebanon's people. In any case, both sides recognise that since Lebanese presidents have limited powers, acting more as arbitrators and facilitators than as policymakers, the factional struggle will continue, no matter who occupies the presidential palace.

Several compromise candidates have been tabled. One is General Michel Suleiman, Lebanon's army commander, who has gained points by crushing a bloody insurrection of jihadists in a Palestinian refugee camp (with the loss of 170 Lebanese soldiers against several hundred militants) and by keeping the army above the sectarian fray. Riyad Salameh, a highly competent head of the central bank, Lebanon's only other effective and non-sectarian institution, has also been put up, along with half a dozen other prominent Maronites. Most Lebanese would at least agree that almost anyone would be better than Mr Lahoud, who has blithely presided over his country's slide towards chaos.

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Israel

The land of Zion

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How the Jewish National Fund may have to change

WHEN the Jewish National Fund (JNF) was set up a century ago, its mission was to buy land in Palestine for settling Jews there, with the coins that diaspora Jews the world over put into the fund's distinctive blue-and-white collection boxes. Now the fund is fuelling the tension inherent in Israel's desire to be both a Jewish state and a democracy. This week a court gave the JNF three months to conclude a deal with the Israel Lands Administration (ILA) on how the fund's land is managed.

The JNF owns nearly 2.6m dunums (2,600 square km), 13% of Israel's land, and its covenant states that the land can be leased only to Jews; most land in Israel can only be leased, not sold outright. Arab Israelis who have tried to acquire homes on JNF land have been refused, sometimes after they have signed contracts and paid deposits. But most of the actual leasing of JNF land—as with almost all the land in Israel—is done by the ILA. Three years ago a group of Arab Israelis petitioned the high court, arguing that the ILA, as a government body, discriminates illegally by following the fund's Jews-only rule.

The fund argues that it is a private body doing what its contributors gave it money to do: buy land for Jews. Its critics counter that at least half of the fund's lands were not bought this way, but were seized by the state after their Palestinian owners fled the war that accompanied Israel's birth in 1948; they were then sold to the fund for a token sum. Jews still owned only 6% of the land when the British Mandate for Palestine ended.

There is controversy over the amounts, but between 1949 and 1953 the fund did obtain either 1.25m (its version) or 2m dunums this way, for a price then equal to somewhere between $4 and $18 per dunum. It says it paid “market value”. That may conceivably have been so, after the creation of the state suddenly made a lot more land easily available to Jews, but it was certainly lower than the going rates of tens to hundreds of dollars per dunum in the run-up to Israel's birth.

Realistic, righteous or racist?

The government accepted the petitioners' argument, in a way. It struck a deal in principle with the JNF: the fund will lease land to non-Jews, but each time it does so the ILA will give it an equal amount of land from somewhere else. Rina Rosenberg from the Adalah legal centre, the lead petitioner, admits that this would end the discrimination in practical terms—non-Jews would be able to acquire land anywhere—but argues that it would continue in principle, since the JNF would still own the same quantity of land.

Besides, in the proposed deal the fund would relinquish land in mainly Jewish urban areas in the centre of the country and get new land from the north and south, where mostly Arabs live. Adalah worries that this could end up making it harder for Arab Israelis to obtain land even in those areas, let alone the primarily Jewish ones.

But things may not even get that far. The ILA and the JNF have already spent two years trying to sew up the details of their deal. The ILA's lawyers gave warning that the three months the court has now granted will probably still not be enough, though an interim form of the deal will now go into effect.

Meanwhile, a bill that would make pro-Jewish discrimination in land allocation explicitly legal has passed its first reading in the Knesset, Israel's parliament, by a large majority. At a time when anti-Israel campaigners are seizing on chances to compare Israel with apartheid South Africa, this has troubled some Jews both abroad and in Israel: the liberal *Haaretz* newspaper titled its editorial “The racist Jewish state”.

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Ethiopia

An archive of murders past

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From The Economist print edition

A brave woman seeks justice and historical recognition for past wrongs

AP

Still seeking justice for their children

Get article background

TYRANTS tend to be oddly punctilious about recording their atrocities. But even by the standards of his peers, Mengistu Haile Mariam, Ethiopia's former dictator, was an incorrigible archivist. The security services of his regime, which took power in 1974, learned the habits of bureaucratic procedure from true masters, the East Germans, who sent Stasi agents to Ethiopia as consultants. When Mr Mengistu fell and fled in 1991, he left behind thousands of pages of memoranda, death warrants and even the minutes of a meeting in 1975 when his ruling committee, known as the Derg, voted to murder the imprisoned emperor, Haile Selassie.

These files form the basis for thousands of criminal cases brought by an Ethiopian special prosecutor since Mr Mengistu fell. The charge sheet and evidence for his trial in absentia for genocide run to some 8,000 pages. Though he remains a sheltered guest of Zimbabwe's president, Robert Mugabe, a court sentenced him this year to life in prison, so ending the special prosecutor's work. But what will happen to all that fragile and incriminating paper?

A woman named Hirut Abebe-Jiri has made it her mission to see that the historical record is preserved. Herself imprisoned and tortured during a purge known as the “Red Terror”, Ms Hirut has set up an organisation to archive, translate and index the Derg's files, and make them available on the internet through a partnership with the University of North Dakota in the United States. A Canadian resident, she recently went back to Addis Ababa, which she fled as a refugee, and signed an agreement with the government that calls for the transfer of the documents into the hands of her Ethiopian Red Terror Documentation and Research Centre. Her model is Yale University's Cambodian Genocide Programme, which documents Khmer Rouge atrocities in the 1970s.

Despite many trials over the years, many Ethiopians still do not know what happened to family members who disappeared during the Red Terror. Ms Hirut hopes that her archive and its website will let Ethiopians—including those in the diaspora—learn the truth.

She knows the power of written words: they brought justice in her own case. During the Red Terror, Ms Hirut, then 17, was imprisoned and beaten up. Years later, she discovered that the man who had ordered her torture, a notorious Derg functionary called Kelbessa Negewo, had emigrated to the United States and was working as a bellhop at a hotel in Atlanta, Georgia. Along with two other former victims, she sued him in an American court. The most powerful evidence against him was his own memos to his superiors, in which he boasted about his “struggle to eliminate the anti-revolutionaries”. Last year, after more than a decade of legal battles, he was deported back to Ethiopia. He is now serving a life sentence for murder.

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Zimbabwe

Breakthrough or sell out?

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From The Economist print edition

The opposition's surprising acceptance of Robert Mugabe's latest clever move

ROBERT MUGABE appears once again to have wrong-footed those who have been trying to oust him. Britain's prime minister, Gordon Brown, is trying to prevent Zimbabwe's president from attending a much-heralded summit meeting of the African Union and the European Union in December. Mr Brown says he will not attend if Mr Mugabe does. But it seems clear that most African governments will stay away if Mr Mugabe is excluded. Portugal, the summit's host, is apparently likely to bow to African pressure and hold the summit whether or not Mr Brown shows up. And British officials hint that even if Mr Brown stayed away, other ministers would almost certainly attend.

Better still for Mr Mugabe, both factions of Zimbabwe's divided opposition, the Movement for Democratic Change (MDC), have recently sided with the ruling party, ZANU-PF, endorsing some controversial constitutional amendments that may well strengthen its grip. This has dismayed many of the lobbies—human-rights campaigners, churches, women's groups and so on—that usually back the MDC, further fracturing an already crumbly opposition.

The amendments proposed by the ruling party allow Parliament, which is dominated by ZANU-PF, to choose a successor if the president steps down or dies before the end of his term. Simultaneous parliamentary and presidential elections look set for March 2008. Seats in the lower house will increase from 150 to 210, and constituencies will be redrawn. This will favour rural areas, where ZANU-PF's grip is tighter than in the towns. The ruling party gave ground by agreeing to limit the president's power to appoint some members of parliament; a supposedly revamped electoral commission will be in charge of redrawing constituencies.

Until now, the MDC had strongly opposed the amendments on the ground that they would entrench the ruling party ahead of the election. The MDC had insisted on a new constitution, the repeal of repressive security and media laws, and for Zimbabwe's diaspora, thought to be more than 3m-strong, to be allowed to vote. Some pro-reform organisations are aghast at the MDC'S reversal. The National Constitutional Assembly, a lobby that for a decade has called for a new constitution, accuses its former ally of treachery.

For its part, the MDC calls its volte-face a confidence-building gesture. It has been talking to ZANU-PF under the auspices of Thabo Mbeki, South Africa's president, who was asked in March by the 14-country Southern African Development Community (SADC) to help solve Zimbabwe's crisis. Behind its official policy of united support for Mr Mugabe, the regional grouping is divided. The British say that a change of mood was noticeable at the latest SADC summit, in Lusaka in August, and that countries like Tanzania and even Namibia that were previously loth to challenge Mr Mugabe have begun to see his refusal to budge as damaging the whole region.

So SADC has hailed the constitutional deal as a breakthrough. Enthusiasts point to reports that ZANU-PF may relax (though not repeal) the media and security laws and work towards a new constitution—at some stage. Some also argue that letting Mr Mugabe in effect pick his successor would make him likelier to step down. Negotiations between his party and the MDC continue, but it is unclear whether Mr Mugabe's lot will make serious concessions.

Divide and rule

The opposition is weaker than ever. It has been unable to stir up the millions of victims of Zimbabwe's economic catastrophe. The MDC faction headed by Arthur Mutambara said in July that attempts to unite the party and field a single presidential candidate had failed. He denounced Morgan Tsvangirai, the party's founder and head of the other faction, as “weak and indecisive”. Meanwhile, many of the party's

mostly urban supporters have left the country: in all, a quarter of the population may have gone. The MDC's allies look weak too. A recent strike call by the Congress of Trade Unions was largely ignored. Other groups' efforts to hold marches and protests have fizzled; people have long been cowed by the beatings and arrests routinely inflicted by the regime.

Despite reports that the latest registration of voters was badly flawed, Mr Mbeki and some of his fellow leaders in the region are keen for next year's elections to be deemed reasonably fair, after which they hope that Mr Mugabe will step down and ZANU-PF will draw one of the MDC factions, probably the one led by Mr Mutambara rather than Mr Tsvangirai, into a coalition. That, they hope, will pave the way to an internationally-backed recovery. Whether Mr Mugabe is contemplating such a scenario is another matter.

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Nigeria

Reforming the oil industry

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In a country where corruption infects almost everything, is reform feasible?

THE Nigerian National Petroleum Corporation, for decades a source of corruption and national shame, is to be abolished by Nigeria's new president, Umaru Yar'Adua, and replaced by five new companies. The president, who will head a special oil council to oversee the changes, says he wants the reforms completed in six months. It would be an astonishing achievement if it happens and works.

The industry has been very badly run for years. On September 21st a federal budget report said that the corporation had somehow failed to remit 647 billion naira (almost $5.2 billion) expected by the treasury last month. Production in June fell to 750,000 barrels a day, far below its capacity of 3m b/d.

As well as incompetence, civil unrest has been to blame. Violence and pipeline sabotage have reduced output to a drip in the oil-rich Niger Delta, where Port Harcourt, the main city, has been under curfew for a month. Shell, Chevron and several other big companies have been forced to close their pipelines and sabotage has hobbled already decrepit refineries, which operated at only about one-third of their potential between 1999 and 2004. The Americans reckon that Nigeria has lost some $16 billion in export earnings in the past two years.

Even before the violence erupted in the Delta, the industry was a mess. A string of military rulers saw oil revenue as a source of patronage and a reward for winning office. Governments spent more time fixing lucrative extraction contracts than investing in refineries. Louis Brown Ogbeifun, a former head of an oil managers' union, says a refinery manager could spend only $35,000 without having to ask permission from the central government, whereas his counterpart on the extraction side could spend up to $2 million off his own bat on a single project. When pipelines broke or were sabotaged, managers on the spot would have to wait for approval from the capital before mending them.

Regulation has been equally erratic. Since the corporation was founded in 1977, its regulating arm, which was recently hived off into a new and supposedly independent body called the Department of Petroleum Resources, went in and out of company control. The new regulatory outfit is weak. Its cash-strapped employees still depend for various services, such as transport, on the oil companies they are supposed to monitor. The department keeps notoriously poor records. Humphrey Asobie, head of the Nigerian branch of Transparency International, a Berlin-based anti-corruption lobby, says that pay is far too low to stop graft.

In a country in which oil brings in 76% of government revenues, small cracks cause big leaks. Audits by the Nigerian Extractive Industries Transparency Initiative, a body set up by the previous government, found that the accuracy of production figures varies widely depending on the purpose of the report in question. No proper metering tracks the output of crude oil, so no one knows exactly how much Nigeria produces or how much is lost in transit.

The new government, formed only two months ago, has been admirably quick to take action. It has awarded a contract worth $52m to fix damaged pipelines in the Delta region and promised to get refineries working again by December. Monitoring is also improving. In May, before the new government was formed, Nigeria's federal parliament passed a law requiring the outfit that runs the transparency initiative to audit the oil and gas sector every year, whereas previously it did so every five years. The new law also provides for companies and officials who fail to give the auditors accurate and timely information to be fined.

To push all these reforms through, the government will have to carry out some nifty legal manoeuvres. The energy ministry announced its plans before Parliament could repeal the 1977 act that created the old oil corporation. If the president's six-month deadline is to be met, Parliament will have to rush through a law to create a new national oil company. An energy ministry official says that all 117 laws on gas and oil

on the statute books will have to be reassessed.

But President Yar'Adua must take care not to cut any legal corners. Earlier this year, his predecessor, Olusegun Obasanjo, sold off several refineries in the dying days of his presidency without disclosing how the deals were done. In protest against this and against a jump in the price of petrol, there was a general strike for a few days in July; the new president was obliged to revoke the contracts. He will be loth to make the same mistake as his predecessor, so he has appointed two committees to draft the reforms and consider what laws should be passed first. But unless he manages to pacify the people of the Delta and so secure its pipelines and refineries, the reforms will be in vain.

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African governance

It's better to be out to sea

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A new league table that names, shames and sometimes praises African countries

THE islands do rather better than the mainland. That is just one finding of an exercise to measure the performance of sub-Saharan Africa's 48 countries, judged by five sets of criteria that are totted up and averaged out to give each country an overall governance score. Mauritius and the Seychelles are run-away winners, with Botswana best of the mainlanders. The tiny Cape Verde Islands come fourth and mighty South Africa fifth. At the other end of the scale, war-smitten Somalia is worst, barely beaten by Congo, Chad and Sudan.

Praise and shame

The African governance league table, 2005

Winners		Losers	
1	Mauritius	39	Sierra Leone
2	Seychelles	40	Burundi
3	Botswana	41	Central African Rep.
4	Cape Verde	42	Angola
5	South Africa	43	Liberia
6	Gabon	44	Guinea-Bissau
7	Namibia	45	Sudan
8	Ghana	46	Chad
9	Senegal	47	Congo (Democratic Rep.)
10	São Tomé & Príncipe	48	Somalia

Source: The Mo Ibrahim Foundation

The league table is the idea of Mo Ibrahim, a Sudanese-born British entrepreneur who sold his mobile-phone company, Celtel, to a Kuwait-based firm, MTC, for $3.4 billion (£1.8 billion) two years ago. Last year he said he would give a prize for "achievement in African leadership" worth $5m, plus $200,000 a year for life, to an African leader who "best provides security, health, education and economic development and who democratically transfers power to a successor." A dozen retired African leaders hope to be considered as recipients.

Two scholars from America's Harvard University, Robert Rotberg and Rachel Gisselquist, are helping Mr Ibrahim assess the nominees and measure countries' performance—by such criteria as safety and security, rule of law and corruption, participation and human rights, economic opportunity, and human development. The "Ibrahim Index of African Governance" will, the tycoon hopes, come out every year—and prod African leaders into doing better.

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Ukraine's election

Preparing for the next drama

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From The Economist print edition

EPA

The real test for Ukraine's warring parties will come after this weekend's election

Get article background

THE stage on Independence Square is set, the props are out, the players are ready for the general election on September 30th. There are blue tents for the Party of the Regions, led by the prime minister, Viktor Yanukovich; orange ones for Our Ukraine, the party of his rival, President Viktor Yushchenko; and white tents with red hearts for the fiery Yulia Tymoshenko, Mr Yushchenko's first prime minister.

Ukrainians have seen this show several times. This is the second parliamentary election since the orange revolution of 2004. The past three years have seen lots of side-swapping, corruption and betrayal. Much of the president's power has been transferred to parliament. In April Mr Yushchenko called a fresh parliamentary election, leaving the country largely ungoverned for almost six months.

The hope is that Ukraine's political system will now be rebooted. Yet the results may be similar to the 2006 parliamentary election, when the big winner was the Party of the Regions, followed by the Tymoshenko block and trailed by Our Ukraine. The real question is not over seats: it is whether the political elite can create a functioning governing body. And that is also to ask if Ukraine, with no tradition of statehood, can be a successful country.

From this perspective, the importance of this election goes far beyond Ukraine. If the biggest ex-Soviet country after Russia can pull itself out of this crisis, it will be an example for others, including Moldova and Belarus.

In the 2004 presidential election the picture seemed clear. The orange forces, led by Ms Tymoshenko and Mr Yushchenko, defeated the vote-rigging Mr Yanukovich, who was backed by Moscow. Ukraine was turned to the West. Since then the picture has become blurred. Ideological divides, at least between the two Viktors, seem less important and the fight for power and money more so.

As president, Mr Yushchenko failed to break the nexus between politics and business and turned a blind eye to the murky brokering of Russian gas to Ukraine. The orange revolution did not create the institutions needed for a functioning state. Then Mr Yanukovich, the villain in 2004, staged a dramatic comeback. Unlike Mr Yushchenko, he never promised to cut links with business tycoons. He is backed by Rinat Akhmetov, an MP and the country's richest man. “We have a different philosophy: we want to draw

business into the running of the country. Akhmetov and Yanukovich complement each other," says Yuriy Miroshnychenko, a lawyer with the Party of the Regions.

Mr Yanukovich has also undergone a makeover by American consultants and no longer takes instructions from Moscow. His main message is of stability and growth. Demanding official status for the Russian language and opposition to NATO membership are secondary. Ms Tymoshenko calls for a revolutionary breakthrough and an anti-corruption crusade. That inspires awe in her supporters and apprehension among some tycoons. All three parties want Ukraine to get into the European Union, but the EU offers little encouragement.

None of the parties will get an overall majority, so a coalition will be necessary. One possibility is the reunion of Ms Tymoshenko and Mr Yushchenko. Another is a coalition between the Party of the Regions and Our Ukraine. Mr Yanukovich and Mr Akhmetov have talked to Mr Yushchenko, who has not ruled out a coalition with his opponents. Now negotiations are intensifying.

The test of this election will be the ability of the parties to do a post-election deal. Oles Doniy, a supporter of Our Ukraine who fought for independence in the early 1990s, says that "from the point of view of the Ukrainian state, victory by Our Ukraine is not enough. The most important thing is the functioning of the state." For the election to be judged a success, he argues, the parties must not cheat; whoever loses must recognise the victory of the others; and whoever wins must allow the losers to function as a proper opposition.

Each of the three parties has accused its opponents of rigging the votes, even before they are cast. None of the parties is ready to admit defeat. If the Party of the Regions wins the most seats but is excluded from government, Mr Yanukovich may bring people on to the streets; or simply boycott parliament.

If the economy keeps growing fast, Ukrainians can afford to take little interest. But with the world economy faltering, the next few years could be tougher. A stalemate that blocks further reform could then lose all the gains from 2004.

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France's budget

Unausterity programme

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The new government's first budget is notable mainly for its lack of discipline

Get article background

THE French have grown so used to their new president, Nicolas Sarkozy, breaking with tradition that when he lapses into bad old ways it comes almost as a shock. So it was with the French government's 2008 budget, unveiled on September 26th. It foresees a deficit of €41.7 billion ($58.8 billion), little smaller than in 2007, and worth 2.3% of GDP, scarcely down from 2.4% this year. Worse, this is based on what could well turn out to be overly optimistic forecasts of economic growth.

At one time, it had looked as if the government was preparing the ground for serious budgetary tightening. The French state, François Fillon, the prime minister, declared bluntly on September 21st, “was bankrupt”. And some days before that, Christine Lagarde, the finance minister, had hinted at an “austerity programme” for the public services.

Yet the reality is a budget that neither cuts public spending, nor reduces government borrowing—and that leaves the total public debt untouched, at some 64% of GDP. Several previously promised cuts have even been scaled back. Mr Sarkozy's campaign pledge not to replace one in two retiring civil servants, for instance, has been trimmed to one in three: some 23,000 jobs will go in 2008, half of them in education. And the government has had to pay for some €9 billion of tax cuts it pushed through parliament in the summer, devised before the recent financial turmoil.

The budget assumes GDP growth of between 2% and 2.5% in 2008. Yet official forecasts generally look optimistic. Whereas the French government reckons that growth in 2007 will also be in the 2-2.5% range, both the OECD, a rich-country think-tank, and the European Commission have revised down their forecasts, to 1.8% and 1.9% respectively.

The budget will dismay France's euro-area friends. Even before it was disclosed, Jean-Claude Trichet, president of the European Central Bank, noted sternly on French radio that the French state was the highest-spender as a share of GDP, “not only in the euro zone but within the European Union of 27”. Ms Lagarde faced harsh criticism at a recent meeting in Portugal, from other EU finance ministers who were not impressed by France's announcement that it planned to balance its budget not by 2010, but by 2012.

The budget increasingly seems to be a source of conflict within the government as well as outside it. When Ms Lagarde started to talk boldly of her austerity programme, she was put in her place by Mr Sarkozy's chief of staff, Claude Guéant. Mr Fillon received similar treatment when he declared that reforms of the country's generous special pension regimes were ready and waiting for a green light from the president. No such reform, retorted the Elysée, was anything like ready.

One explanation for these discordant voices could be that neither the prime minister nor the finance minister have as well-honed political instincts as Mr Sarkozy does for how to prepare public opinion for reform. The president tends to argue that change must not be perceived entirely in terms of sacrifice, so an expansionary budget is needed to smooth tough reforms. Another explanation could be that the government is waiting until after next March's municipal elections to tighten the belt. But the third is simply that the Elysée cannot stomach the political impact of a tighter budget squeeze.

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Turkey and Islam

Secularists' lament

Sep 27th 2007 | ANKARA AND ISTANBUL
From The Economist print edition

Time to pray? Or to despair?

A BUS travelling from Samsun to Istanbul on September 2nd stopped at a mosque when passengers insisted on saying their daily prayers. Similar demands are heard all over Turkey, says *Milliyet,* a daily that was bombarded with hate mail from religious hotheads for reporting the Samsun case. In another incident, Gulcan Kose, a 28-year-old divorcee who was wearing a knee-length tunic and leggings, was detained by Istanbul police for “indecent exposure” as she stood with a fellow fisherman on the Galata bridge; she faces charges of resisting the authorities. Many restaurants that once served customers during the Ramadan fast no longer do so.

Turkey's secularists feel cornered. Ataturk's republic, some say, is becoming “another Iran”. Their fears have grown since the Justice and Development (AK) party's election victory in July and the subsequent elevation to the presidency, over the army's objections, of Abdullah Gul, a former AK foreign minister. Mr Gul's wife wears the Muslim headscarf, banned in government offices and schools.

Corbis

In search of the right message

Now Recep Tayyip Erdogan, the prime minister, has said that the headscarf ban should be scrapped in universities. A new constitution planned by the AK to replace one written after the military coup of 1980 includes this change. Many fret that pressure on women to wear the veil, particularly in conservative areas, will intensify if it is allowed on campuses.

Is Turkey turning an Islamic shade of green? AK's first five years in office suggest not. Mr Erdogan did once try to outlaw adultery, and some AK mayors attempted to create alcohol-free zones. But faced with an outcry, such efforts were soon dropped. Even feminists concede that some of the most radical improvements in the lot of women since Ataturk were introduced by AK. And many agree that to deny a woman an education because she is veiled contradicts Ataturk's vision for women.

AK's supporters say the real reason for the secularists' despair is not a fear of Islamism, but because their own power is fading. A new and pious Anatolian bourgeoisie is rising up. The generals are losing their grip. “They are using the headscarf to create an atmosphere of panic in which they [the secular elite] can regain lost ground,” argues a senior AK man. If the constitution is adopted in its current form, the army will lose more influence—and Turkey will be a more democratic place.

Yet even liberal intellectuals now sound nervous. Yesim Arat, a political scientist at Bosporus University who dislikes the headscarf ban, laments the use of the new constitution to repeal it. The headscarf is worn in keeping with Islam. “By inserting it into the constitution you are forming law based on religious dictates,” Ms Arat says. “This is very problematic.”

Some women are similarly spooked by the removal of a clause saying that the state is responsible for ensuring equality between the sexes. There is only one woman in Mr Erdogan's cabinet. AK women, who played a big role in wooing voters, are now being sidelined: one of them, Ayse Bohurler, who opposed Mr Gul's presidency, complained of being labelled “a bitch” by male colleagues. And instead of trying to allay secular fears, Mr Erdogan has told critics to “shut up and mind your own business.”

Mr Erdogan says he has no immediate plans to get rid of article 301 of the penal code, which was used to prosecute various writers, including Orhan Pamuk, for “insulting Turkishness”. But keeping article 301, say opponents, just confirms that AK is interested only in promoting Islam and defanging the army. The

government remains “selective about democracy”, claims Umit Kardas, a former army prosecutor and critic of the generals.

When Festus Okey, a Nigerian refugee, was shot dead in an Istanbul police station, no official rebuke was uttered. Mr Kardas blames a law restoring the police's ability to act with impunity for other alleged abuses. None of this augurs well for Turkey's hopes of joining the European Union. It may fall to Mr Gul, a Europhile and undoubted democrat, to restore calm and bolster the AK's secular credentials.

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Poland's election

Bad habits

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The ruling party is faring well in the election campaign. That is worrying

Get article background

A CIRCUS, a farce, a tragedy, or a thriller with an increasingly sinister plot: depending where you stand, Polish politics can look like any or all of these. After a year of fractious coalition government with two unsavoury small parties, the ruling Law and Justice party (PiS) faces a fresh election on October 21st. And, despite its patchy record, it looks likely to win.

It is easy to depict PiS as a bunch of provincial incompetents, obsessed by historical grievances and ignorant of the modern world. Strong economic growth has disguised Poland's soggy public finances, lousy bureaucracy, bad roads and inadequate schools. PiS has so far done little to remedy these. The PiS leader and prime minister, Jaroslaw Kaczynski, and his twin brother Lech, who is president, have also masterminded a resentful and unpredictable foreign policy that reduces even friendly European countries to despair.

The biggest worry is the blurring of lines between politics and public institutions. It is odd that a partisan political appointee, Antoni Macierewicz, runs the military counter-intelligence service; odder still that he is standing for parliament. “Macierewicz can spend the morning in the office reading transcripts of our conversations, and the afternoon at PiS campaign headquarters telling them what we are up to,” says an opposition leader, as he scribbles down a point, safe from the bugs he says are in his home.

Nerves are also jangling at the zealous behaviour of the justice minister, Zbigniew Ziobro. His fondness for announcing investigations and arrests at press conferences, and his enthusiasm for setting his prosecutors on to political opponents, suggest that he has little regard for the separation of powers or for due process.

PiS supporters strongly contest all this. The climate of fear is created by a hysterical media, not the government, says Adam Bielan, a party strategist. PiS won the 2005 election by promising to uproot the *uklad*, a network of ex-spies, corrupt businessmen and political insiders who have dominated Poland since 1989. Mr Ziobro's public toughness is changing the climate; the howls of protest are self-interested, and a sign that the anti-corruption offensive is working. A stronger electoral mandate will let PiS finish the job.

He has a point. Sleaze had become pervasive in Poland. The intelligence services had often escaped political oversight in previous years, and their veterans have an alarming knack of finding profitable business niches. But Jaroslaw Kaczynski has yet to prove that the *uklad* is as sinister as he claims. An investigation by Mr Macierewicz into the now disbanded military-intelligence service, the WSI, produced only an inconclusive preliminary report. An update is now promised.

Moreover, the cure prescribed by PiS could be worse than the disease. Poland needs strong, politically neutral institutions and a more open and deregulated economy. Purging suspect officials only to replace them with party placemen is not going to deliver these. Nor will political misuse of the intelligence services make them any cleaner. Witch-hunts can create paralysis in government, leaving nobody willing to take a decision, for fear of being accused of corruption if it goes wrong.

Claims that Polish democracy is in danger are overdone. But PiS has not calmed such fears with a partisan approach to public broadcasting. The government seems also to have used bureaucratic harassment to get a privately owned television channel to sack its star presenter, Tomasz Lis, who was a trenchant critic. Mr Lis is moving his show to the internet.

Optimists hope that, if PiS wins, it will calm down and concentrate on the mundane business of government. But its mix of revisionist history, contempt for the constitution and equation of opposition with treason carries a nasty whiff of Vladimir Putin's Kremlin. Jaroslaw Kaczynski finds comparisons with the Russian president absurd and insulting. But he could do more to avoid them being drawn.

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Kosovo's future

The waiting game

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European Union decisions will be crucial to the future of Kosovo—and Serbia

THIS week Serbs and Kosovo Albanians (Kosovars) are meeting in New York to discuss the future of Kosovo—or so diplomats would have everyone believe. In fact, the two sides are simply restating their well-known positions. The Kosovars want independence; the Serbs say they cannot have it. Since the parties cannot agree, diplomats on all sides have merely been pretending that genuine negotiations are taking place.

There is a debate about Kosovo. But it is not between Serbs and Kosovars, nor even between Russians and Americans. Rather it is within the European Union. What EU countries decide will matter not just for the 2m inhabitants of Kosovo, 90% of whom are ethnic Albanians. It will also affect the credibility of the EU's nascent foreign policy.

On the map, Kosovo is Serbia's southern province. But since the end of the war in 1999 it has been under United Nations jurisdiction. Serbs in Kosovo live in heavily protected enclaves or in a compact patch abutting Serbia proper. The Kosovars have long demanded independence. Serbia has promised to grant Kosovo almost unlimited autonomy short of independence, but given its history the Kosovars are not interested.

In March, Martti Ahtisaari, a former Finnish president, gave the UN a plan for “supervised independence”, after 14 rounds of mostly fruitless negotiations. But Russia said it would veto a Security Council resolution backing this. In desperation, fresh talks were initiated. On December 10th the Russian, American and EU ambassadors overseeing these fictitious negotiations will report back. Western diplomats (and Kosovars) say that will be the end of the game; the Russians (and Serbs) say it will not be.

Given the Russian stance, and statements by the Americans that they will recognise Kosovo if it declares independence after December 10th, neither party has an incentive to take the process seriously. It is what the Europeans do that matters. America does not want to be the only big power to recognise an independent Kosovo. Britain and France would like to, and they do not like what they see as Russian interference in an internal European matter. But they also want to maintain EU unity.

So the spotlight will shift to Berlin. If Germany recognises Kosovo's independence, Italy and most (but not all) other EU countries will probably follow. Serbia would then be at a fork in the road. The prime minister, Vojislav Kostunica, is mounting shrill attacks on NATO and the West. Ministers from his party have also been saying that, if European countries recognise an independent Kosovo, Serbia will no longer seek to

join the EU.

If Serbia ends its EU bid, it will head into isolation, and may drag all of the western Balkans with it. Yet Kosovo will not wait placidly forever: this week a bomb in Pristina killed two people. Faced with unpalatable choices, it will be no surprise if the diplomats, or their political masters, find another reason for delay when December 10th comes.

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German security laws

Times of terror

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Trying to cope with future threats but burdened by the past

THE German people have been spared a direct attack by Islamist terrorists. But the interior minister, Wolfgang Schäuble, himself a victim of an assassination attempt, has raised fears by saying that a nuclear attack by terrorists is only a matter of time. Franz Josef Jung, the defence minister, has added that, if terrorists used a passenger plane as a missile, he would have it shot down, contradicting a ruling by the constitutional court. Among those denouncing the two Christian Democratic ministers as scaremongers are their coalition partners, the Social Democrats. Mr Jung crossed a “demarcation line”, said the vice-chancellor, Franz Müntefering.

In Germany, the debate over the trade-off between security and liberty has two twists. The first, which may be healthy, is that it is being conducted within the tense “grand coalition” government, in which both sides of the argument are represented. The second, which is less so, is Germany's 60-year tradition of deep mistrust of the state. Other countries also face trade-offs; Germany is grappling with its historical taboos as well.

The constitutional court's overturning last year of parts of a “flight security law” simply reflects German legal doctrine. The duty to respect human dignity is absolute, so the state may not kill some to protect others, said the court. Nor may it deploy the armed forces at home except to repel foreign attacks or deal with catastrophes. Since soldiers cannot disobey the law, Mr Jung can have no confidence that the air force would shoot down a plane if he gave the order.

In fact, even the most zealous defenders of the court's ruling consider it impracticable. The argument is over whether Mr Jung should have said as much; and whether, as he insists, a new law is needed to sanction the shooting down of a passenger aircraft. His critics say he is playing politics with a remote possibility. If such a hijacking ever happened, it might be impossible to confirm the hijackers' intent in time to down the plane. But in such a situation, few doubt that the defence minister would give the order. “In that case it is wise to act and not to publish ideas and thoughts in advance,” comments Michael Hartmann, the Social Democratic spokesman for internal security.

The constitutional court may even agree. It avoided saying that any minister who issues a shoot-down order would be subject to criminal prosecution, notes Dietrich Murswiek, director of the Institute of Public Law at Freiburg University.

What Mr Jung and Mr Schäuble are really trying to do, their critics fear, is to replace Germany's “legal state” with a “preventive state”. Mr Schäuble, the supposed ringleader, sees the distinction between foreign and domestic security as false and is given to provocative suggestions (perhaps known terrorists should be targeted for assassination, he mused recently). His security wish-list includes such controversial proposals as letting the security services install spy software on suspects' computers. Although Mr Hartmann supports on-line snooping, he worries that “step by step Germany could become an only security-oriented state.”

Despite these disputes Germany is updating its anti-terrorism laws. The grand coalition has passed 13 measures, such as authorising police and the secret services to share data on terrorist suspects. The spat over Messrs Jung and Schäuble's remarks has not stopped the government from negotiating over new laws to expand the powers of the federal police. The difference, says Mr Hartmann, is that “now we don't smile when we see each other.”

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Charlemagne

A cheesy tale

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From The Economist print edition

Illustration by Peter Schrank

Swiss cheese offers a surprising model for European agricultural reform

AMONG European reactionaries, on left and right, it is a cherished tenet that globalisation is the enemy of decent cheese. Not for nothing was the slogan “McDonald's out, let's keep the Roquefort” chanted when José Bové, a media-savvy French farmer, achieved worldwide fame for “dismantling” a half-built branch of the hamburger chain in 1999. Local traditions, small-scale production by hand, the use of tasty raw milk: all these good things are said to be at threat from the homogenising, cost-cutting impulses of global capitalism.

So it is striking to discover that Switzerland, home not just of serious cheese, but also of one of the world's most protected farm sectors (worse even than the European Union) is taking a big bet that the future of Gruyère and Emmental is best secured by embracing international competition. Unnoticed by the wider world, this summer saw the near-total liberalisation of Swiss-EU cheese trade. This ended years of import barriers that doubled the cost of some EU cheese on Swiss shelves, as well as export subsidies that dumped half-priced Emmental in places like Italy (thus, in a final lunacy, luring thrifty Swiss housewives to cross the border to buy their cheese).

Reduced to its essence, the Swiss bet is this: if your country is a (very) expensive place to make cheese, it is better to head upmarket and seek out new, rich customers than to deploy subsidies and tariffs to compete artificially on price. What this amounts to is a hope that a focus on choosy foreign buyers may turn out to be the best way to safeguard traditional producers.

This Swiss experiment matters to the rest of Europe. For it foreshadows, in microcosm, a bigger bet on globalisation that reformers would like to make for most European agriculture. Swiss officials say it took ten years to swing their cheese industry behind the idea of open borders. Mariann Fischer Boel, the agriculture commissioner, does not have that long: in the next few months a new battle will start over reform of the much-improved, but still disgracefully lavish, common agricultural policy (CAP), which accounts for almost half of the EU budget. In recent speeches, Mrs Fischer Boel has urged food producers to focus on quality, heritage and new markets. This summer, she told exporters that import tariffs will move in only one direction in the coming years: “downwards”.

Anton Brügger, a second-generation Gruyère-maker from the Sense valley, near Bern, has not forgotten a visit to Australia, when he saw hunks of Swiss Gruyère on sale for four times the price he gets from his producers' association. This example of globalisation did not anger him. Instead he bought some to taste (it was pretty good), and rejoiced at the power of Swiss exports. China is a new opportunity, he thinks.

“The Chinese will start eating cheese, that's for sure.” At that point, naturally, China will start making lots of cheap cheese: it already has a growing dairy industry, making pots of money from yoghurt.

Mr Brügger's home village of Wiler vor Holz is not a cheap place to farm. Its dark wooden houses and barns, balconies brightened by masses of geraniums, would not shame a ski resort. The cows wandering past his dairy, bells tonkling prettily, are fed on the purest grass and hay (cows whose milk is destined for Gruyère or other protected Swiss cheese may not eat silage or cattle feed). As a result, even the permanent whiff of cow dung that hangs in the air has an oddly pleasant, yeasty scent.

This is also the smell of Swiss taxpayers' money at work. State aid for maintaining the (lovely) landscape is everywhere. There are subsidies for feeding cows only grass and hay, and subsidies for letting them graze outdoors in the summer (Swiss voters are big on animal welfare, and tourists like animals). Wildflower meadows, wooded riverbanks and steep fields all attract cash. Officials insist these are payments for public goods that do not distort the market. Their views are nowadays echoed in the EU, where cash is shifting from subsidising production to direct payments for looking after the countryside.

The whiff of free competition

The Swiss bet on globalisation does not affect trade with the EU alone. Switzerland still slaps big tariffs on New Zealand dairy products. But more competition will stir things up. Aberrations like Swiss mozzarella or brie may struggle against the real thing from Italy and France. Authenticity will come to matter more.

For years, Swiss dairymen had little incentive to improve their Appenzell or Tête de Moine, as all cheese for export was bought for a fixed price by a state-run monopoly. It was a “very comfortable” life for those who were not “champion cheesemakers”, says one official, delicately. More go-ahead types seethed with frustration.

The industry's self-regulation continues for the biggest cheese varieties. Producers' associations, such as the one that buys Gruyère from Mr Brügger, still set production quotas for each cheesemaker. At a regional fair, Charlemagne met an authentic free-market hero, Walter Zaugg, who escaped the “very regulated” Emmental market five years ago by inventing his own cheese, Flösserkäse, or “rafter's cheese”. He gave the cheese a fictitious history (his marketing talks vaguely of cheese hidden in barrels and smuggled to market on log rafts centuries ago). Inventing your own cheese is “hard work”, says Mr Zaugg, “but it means freedom.” He now makes 200 tonnes a year, much of it exported to Germany.

Mrs Fischer Boel likes to point out to EU farmers that the Indian middle class is growing by 35m people, “the population of a medium-sized European country”, every year. The new rich in India are hungry for exotic forms of European food and drink, she says. India's middle classes have already embraced McDonald's. Will some now take to authentic Roquefort and Gruyère as well? If Europeans take care to export only decent, well-crafted cheese, it seems a fair bet.

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The Labour Party

After Gordon

Sep 27th 2007 | BOURNEMOUTH
From The Economist print edition

AP

Labour looks ready for an early election—and also for later ones

Gordon Brown

UNDER Tony Blair's leadership, much of the fun was stage-managed out of Labour Party conferences. Trade-union motions carried less bite, and there were vanishingly few showdowns with the militant left (“Don't clap”, joked one union leader this year, “or they'll turn the microphone off”). But the former prime minister usually provided his own entertainment in the form of a rousing oration: his attack on the “forces of conservatism” in 1999, for example, or his teary farewell last year.

Most commentators agree that by comparison Gordon Brown's first conference speech as Labour leader, delivered in Bournemouth on September 24th, was a tepid affair. Policy pledges were of the practical but unspectacular variety, including a “deep clean” of hospitals to fight killer bugs such as MRSA and measures to reduce paperwork for the police. From a politician with a taste for the grand gesture (as chancellor, he often concluded his budget speeches with a dramatic policy announcement), this was surprising.

One view is that Mr Brown is making a virtue of the stolid seriousness once thought to be among his weaknesses. A less flattering explanation is that he has had only one big project ever, which was to redistribute money to the poor without eroding incentives to work. Having implemented this through a new tax-credit system when he was at the Treasury, he has simply run out of ideas.

His populist rhetoric and tick-box pledges did, however, fuel speculation as to whether he would call an early election, an idea invoked by successive polls putting Labour comfortably ahead of its Conservative rivals. Labour officials bragged that they were ready for a campaign whenever the prime minister gave the word; his aides were said to be studying weather charts in order to ascertain the attractions of a November vote. But beyond the swelling surface noise about what Mr Brown might do in the coming weeks, the conference posed a broader question about what some of his junior colleagues might do in the coming years.

New New Labour

Since David Cameron became Tory leader in December 2005, the press has been full of profiles of the “Notting Hill Tories”, the band of young, west London-dwelling MPs anxious to haul their party from the right towards the centre ground. Similar coverage was given to the young Liberal Democrats who produced the classically liberal Orange Book in 2004. Less remarked upon in the past, thanks to the dominating presence of Mr Blair and Mr Brown, but much in evidence in Bournemouth, was Labour's young blood.

Already in the cabinet are David Miliband, the foreign secretary, his younger brother Ed, who heads the cabinet office, Andy Burnham, the chief secretary to the Treasury, plus Ed Balls, James Purnell, Ruth Kelly and Douglas Alexander, who handle schools, culture, transport and international development, respectively. Other rising stars, with various beats, include Yvette Cooper, Liam Byrne and David Lammy. David Miliband, at 42, is the oldest of the bunch. Almost all former policy advisers, their distinguishing characteristic is not so much their intelligence (there is no dearth of brain power among their Tory and Lib Dem contemporaries), but the fact that it comes with ministerial experience. This lends them a credibility that is not yet enjoyed by their opponents.

No party's long-term prospects are determined solely by the calibre of its personnel. Nevertheless, the government is already reaping a youth dividend: few administrations look this fresh after a decade in office. That this batch of MPs are all modernisers should also prevent the party from lurching to the left when it eventually loses power, as it did following its defeat by Margaret Thatcher's Tories in 1979. The only influential left-wing critic of their ideas within the party is Jon Cruddas, a 45-year-old who used to work at Number 10 and is on good terms with most of them. The contrast with the predicament of the Tory modernisers, a thin sliver within a party that remains largely suspicious of change, is instructive.

Not that Labour's next generation is invincible. Even by the standards set by young MPs in other parties, they have little experience outside Westminster. Mr Byrne has worked for Accenture, a technology consultancy, and others, but the foreign secretary's career path —from think-tank to special adviser to Parliament—is more typical. And their experience within politics has been benign. The struggle to drag Labour from the far left was waged largely by their elders, including Mr Blair and Mr Brown. The likes of the Miliband brothers and Mr Alexander admit that theirs is a “lucky generation” of Labour politicians—not weak, but not battle-hardened either.

There is, as yet, no obvious leader among them. The elder Mr Miliband enjoys a primacy of sorts: urged by some to challenge Mr Brown for the party leadership early this year, he snagged the most important office after refusing to do so. His speech in Bournemouth on September 25th—a subtle bid to re-orient British foreign policy from under America's wing, but without much detail—got mixed reviews. But despite his hinterland (he is, like so many in New Labour, football-mad) and unusual back-story (he is the son of a refugee who fled the Nazis), he is at times caricatured as a remote intellectual, and may suffer from his status as front-runner.

Only the voters will decide—perhaps in a few weeks' time—whether Labour achieves its aim of dominating British politics for a decade or longer. But one thing is clear: they are better-equipped for victory than their opponents would wish.

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Anglicanism

The turbulence of priests

Sep 27th 2007
From The Economist print edition

A meeting in Louisiana papers over the cracks

Get article background

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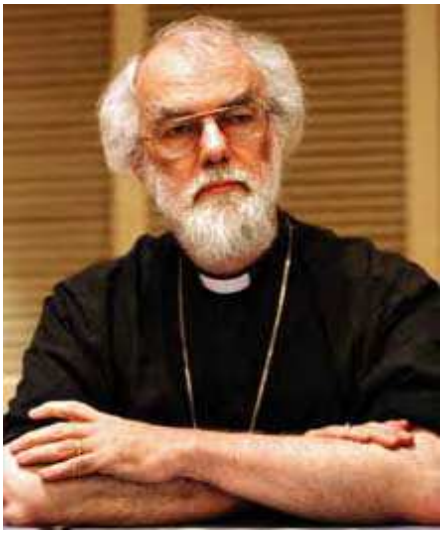

Rowan Williams with a job to do

IN NEW ORLEANS it is hard to stop talking about hurricanes, even metaphorically. “People came here thinking this was going to be Katrina II,” said Gene Robinson, the gay American Episcopalian whose ordination as bishop in 2003 plunged the worldwide Anglican Communion of churches into crisis. In the end, reported Katherine Jefferts Schori, who led 160 Episcopalian prelates in six hard days of deliberation, they found “common ground to stand on...high ground”.

Will the elevation be sufficient? Faced with the risk of a fiasco at next summer's Lambeth conference—a once-a-decade gathering in England for all the communion's bishops—the Americans were pondering how far they could go to meet conservative demands that they stop elevating gay bishops and blessing same-sex couples. Without concessions from the American side—so the Africans and other conservatives had made clear—Lambeth might face a mass boycott.

Rowan Williams, the Archbishop of Canterbury and head of the 80m-strong Anglican Communion, went to New Orleans to urge his fellow clerics to put unity first instead of fighting their own corners. Like Bishop Katherine, he is a liberal by conviction—but his job obliges him to be a consensus-builder.

In response, the Americans went as far as they felt they could—pledging to “exercise restraint” in approving any bishop whose lifestyle might be a “challenge” to the communion's unity; and promising not to authorise any official prayers to bless same-sex unions. This won at least grudging acceptance across a broad spectrum of American Anglicanism. It may slow, if not arrest, the exodus of conservatives—either to the Roman Catholic church, or to the care of harder-line bishops in African countries.

One big question is how far the split in American Anglicanism will spread to other places, including the English motherland. In August two conservative Americans were proclaimed as bishops—with a mission to care for other traditionally-minded Americans—at a cathedral in Nairobi. The reaction from Anglican headquarters was frosty. But not everybody in England agreed: Michael Nazir-Ali, a bishop of Pakistani origin, was among 30 English signatories of a statement hailing the Kenyan church's support for the “faith once delivered to the saints” and deplored liberal America's “determined capitulation” to modern culture. For those who are struggling to keep the Anglican show on the road, that was a nasty setback.

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Gambling addicts

Playing a strong hand

Sep 27th 2007
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The government's bet on liberalising online gambling is paying off

THEY are neither athletic nor photogenic, but Dave “Devilfish” Ulliott, “Barmy” Barny Boatman and Chris Moneymaker are world-famous sports champions, of a sort. All three are among the professional poker players who have gathered in London in recent weeks to play in two of the game's most prestigious tournaments outside America.

On September 17th Annette Obrestad, then an 18-year-old Norwegian, won a £1m ($2m) prize playing in the World Series of Poker. And on September 25th players again took up their cards to take part in the London leg of the European Poker Tour.

Competition among the players is fierce, and colourful. The snakeskin-clad Mr Ulliott, for instance, reportedly trains by making love for five hours at a stretch—“I like to get a woman and wring her out like a flannel,” he told a newspaper—to prepare for playing late into the night. Entertaining as these public contests may be, their main point is to advertise online gambling, a business that Global Betting and Gaming Consultants, a research firm, reckons will amass worldwide revenues of $24 billion in 2012, up from $15 billion in 2006. Britain, and British firms, want to secure the lion's share of it.

New laws which came into force in Britain at the beginning of September allow the creation of licensed internet casinos where people can gamble on games such as poker and blackjack. Until now, gamblers could try their luck at them only on servers located offshore.

The change is aimed squarely at encouraging the development of an internationally competitive internet gambling industry in Britain. The government reckons that online casino operators will be willing to come under the watchful eye of its regulators (and tax collectors) in exchange for more legitimacy with their customers.

A similar approach has already worked with betting firms, which were moving rapidly offshore until the government abolished its tax on wagers in 2001. Since then most British-owned businesses have moved back, and the country is now home to the some of the world's biggest publicly-traded betting firms. Leighton Vaughan Williams of Nottingham Business School reckons the government now garners more from taxing the profits of betting firms than it used to get from taxing the bets directly. And the amount people stake has also increased, from £7 billion in 2001 to an estimated £50 billion this year.

Liberalisation has not proved as damaging to British morals as critics feared. The Gambling Prevalence Survey, released on September 19th, surprised many with its findings, though some contest the figures. Although restrictions have been easing for years, the proportion of problem gamblers in Britain has barely changed since 1999, the survey holds, and, at about 0.6% of adults, it is lower than in more puritanical America. And even the aficionados have their limits. In his blog, Mr (“Devilfish”) Ulliott says: “I was going to play...[a poker contest in Spain], but to be honest with you I really couldn't be bothered this time. Sometimes you just need a break.” With such a demanding training regime, who can blame him?

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Education standards

Bursting bubbles

Sep 27th 2007
From The Economist print edition

Grade inflation is a problem right across England's education system

Get article background

THE government has finally grown sick of claims that GCSEs and A-levels are being dumbed down, it seems. In his speech to the Labour Party conference on September 26th, Ed Balls, the schools secretary, said he would create a new watchdog to oversee exams. The current regulator is to be broken in two, with one bit continuing to develop new syllabuses and qualifications and reporting to ministers. The other bit, independent of government and reporting directly to Parliament, is to guard against grade inflation.

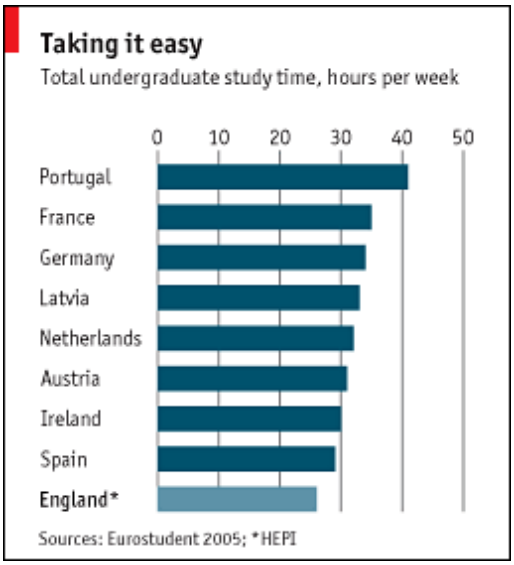
Mr Balls draws parallels with Gordon Brown's first big step when he became chancellor in 1997. Relinquishing the Treasury's power to set interest rates to an independent body is still, ten years later, regarded as his finest hour. Mr Balls, as his chief economic adviser at the time, was one of the architects of that decision. Both men hope that the new exams watchdog will lead to similar plaudits.

Britain's secondary-school exam results have every reason to be upwardly mobile. The government wants voters to believe their children are getting a good education, so it is keen on high grades. Schools respond by shopping around among exam boards for the easiest syllabuses and tests, and directing pupils towards the softest subjects. Exam boards navigate between losing the trust of universities and losing the patronage of schools. And the individuals setting and marking exams know that harshness may mean fewer candidates in future.

The new arrangements may ensure that, in schools at least, bad exams do not drive out good. But they will have no effect on universities, where grade inflation is also rife. Three-fifths of all students now get at least an upper second, and between 2002 and 2006 the proportion of first-class honours degrees crept up from 9.7% to 11%.

There are also signs that the value of English degrees is being eroded on the international market. On September 25th the Higher Education Policy Institute (HEPI), a think-tank, published the results of a survey of 15,000 English undergraduates. It turns out that they spend much less time studying than those elsewhere in Europe. The average English student puts in 26 hours a week: 14 taught hours and the rest on independent study, compared with 29 hours in Spain and 41 in Portugal (see chart). Nor is it that English students are skimping on their studies to run to paid jobs; students in other countries work harder outside university, too.

HEPI's director, Bahram Bekhradnia, cautions against a simplistic interpretation. Hours taught do not equal hours spent learning, he says, pointing out that tailored tutorials for small groups are likely to transmit more knowledge than the lectures in enormous amphitheatres that are routine at some continental universities.



But neither can the results be brushed away, he says. Foreign students may go elsewhere if they think an English undergraduate degree is content-light and poor value for money. This would spell financial disaster for many cash-strapped English universities. In 2004-05, the last year for which figures are available, they received £1.7 billion in foreign students' fees.

At first sight the results of the third National Student Survey, published on September 12th, make more cheerful reading. That found that four-fifths of all English students considered their university experience satisfactory. But Graham Gibbs of Oxford University puts a gloomy spin on even this. What these students

may be satisfied with, he says, “is an education that makes comparatively low demands on them”. That is perhaps understandable: most undergraduates are not known for their work ethic. But it is short-sighted, both for them and their universities. After all, a currency can only trade for so long on its reputation.

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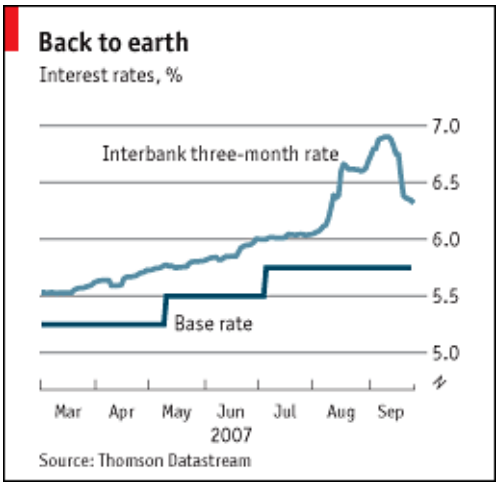
Credit conditions

The crunch isn't over

Sep 27th 2007
From The Economist print edition

The market squeeze is easing but borrowers are in for a hard time

Get article background



SINCE early August the City has been in the emergency ward. First the money markets seized up, as banks hoarded spare cash. Then the first bank run in Britain since Victorian times was stopped only when the Treasury guaranteed all the deposits at beleaguered Northern Rock, the country's fifth-biggest mortgage lender.

Following that pledge, which Alistair Darling, the chancellor of the exchequer, made on September 17th, the patient has shown some signs of recovery. A prime symptom of the monetary malaise has been the extraordinarily high rate that banks have been charging each other for three-month loans. This interbank rate, which forms an important benchmark for much lending (especially to companies), usually stands a bit above the Bank of England's base rate, which is currently 5.75%. But it climbed to a peak of 6.90% on September 11th and 12th before falling back, reaching 6.32% on September 26th (see chart).

Another apparent sign of convalescence is more ambiguous. On September 26th no bank bid for any of the £10 billion that the Bank of England was prepared to make available for three months. This concession, announced on September 19th, when the central bank also said it would accept mortgage loans as collateral, marked a reversal of its previous tough line that it could do little for the three-month interbank market. The lack of bidders could indicate that market strains are easing, and that the mere promise of a lifeline was enough. But banks may have shunned the auction—the first of four planned until mid-October—for fear that, if their bids became known, it could suggest desperation, especially since the interest payable on the funds is at least one percentage point above base rate.

But even if the money markets are looking less sick, the full repercussions of the financial seizure are starting to be felt in the wider economy. Lenders have already cut their credit to companies over the past three months, according to a new survey by the Bank of England. What's more, they expect to make an even bigger reduction over the next three months, as they impose stricter terms and conditions and raise the cost of their loans.

Surprisingly, the survey found that mortgage lending to households was unscathed. But it was completed just before the Bank of England announced its emergency support for Northern Rock. In the aftermath of the bank run, many borrowers will find it harder to get loans and will have to pay more for them. Mark Clare, the boss of Barratt Developments, a homebuilder, said this week that there had been “a tightening of lending criteria and mortgage availability”.

So far the housing market looks resilient: prices rose by 0.7% in September, according to the Nationwide building society. But Fionnuala Earley, its chief economist, said that the financial crisis would eventually take some of the froth out of the market.

The credit crunch will thus hurt not only companies but also households. One consolation is that the economy has recently been growing too fast for comfort. But the threat of a wrenching slowdown is becoming worryingly plausible.

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Community-support officers

Scarecrows

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Why giving the "plastic police" more powers could make them less effective

Get article background

ONE of the loudest cheers at the Labour Party conference this week went to John Smeaton, the baggage handler whose well-timed flying kick helped thwart a terrorist attack on Glasgow airport in June. Risking such peril made him the sort of "have-a-go hero" that Jack Straw, the justice secretary, wants to encourage by easing self-defence laws. A fans'website has already raised enough money to buy him 1,400 thank-you pints of beer.

Alas, not everyone can be blessed with Smeaton-like courage. On September 21st Greater Manchester Police found itself defending two junior officers who remained on the edge of a lake after a boy disappeared beneath its surface. The ten-year-old, whose body was eventually fished out by his stepfather and another policeman, may in fact have died before the officers arrived. But the lame official excuse that the timid officers were "not trained in this type of rescue" raised hackles.

A fundamentalist reading of health-and-safety rules may be the real culprit; it caused the same force to ban coppers from riding bicycles. But attention has focused on the lakeside officers themselves, who were not "proper" policemen but community-support officers (CSOs), a lightly-trained, lower-paid variety introduced in 2002 to make a show of force on the streets. The wretched incident fitted the caricature of CSOs as inexperienced and powerless. As young as 16 and trained for only four weeks, the "plastic police", as detractors call them, cannot make arrests, carry out stop-and-searches (except, oddly, on potential terrorists) or do much other basic police work. The Police Federation, which represents ordinary officers, sees them as a threat to jobs and wants rid of them; the Tories call them a cheap alternative to real bobbies.

When it came to office, Labour did indeed allow police numbers to decline. This did not seem to affect crime rates, which fell, but it upset the public, who began to think crime was worsening. It was not long before this worry, along with Tory attacks and a hysterical press, forced Labour to ramp up recruitment: from 2000 to 2005 police ranks swelled by 17,000, and since 2002 CSOs have meant another 16,000 uniforms on the streets.

The cost of CSOs is part of their official appeal: paid £16,000 a year, they are a bargain compared with £20,000 police constables. Hiring low-skilled staff for everyday plodding is not confined to the police: in schools, for example, the number of teaching assistants has grown far faster than the number of teachers.

But CSOs have other strong points too. Because they have few powers, commanders have to let them get on with pounding the streets, which ordinary constables cannot do for ten minutes before being called away to a crisis. "It has created a type of officer that cannot be pulled hither and thither," says Adam Crawford of Leeds University. Traditional patrolling pays dividends—in gathering intelligence, for example—which may not count directly towards official targets but has value.

Beefing up CSOs' powers, as some propose, could spoil this: the more they can do, the more they risk being dragged away from their beats. Mr Crawford reckons that "mission drift", away from patrolling and towards enforcement, is already underway: the range of fixed-penalty notices CSOs can hand out to anti-social yobs grows every year. In December many optional powers are to be made compulsory. Those who despair at current limitations may cheer. But the more powerful CSOs get, the more they are likely to serve as weedy substitutes for real police. And that will leave the mean streets meaner still.

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Bagehot

The sadism strategy

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Illustration by Steve OBrien

It might win Gordon Brown an election. But then what?

Gordon Brown

IN THE beginning cometh the evil ones with their bombs. Next, “in these early weeks,” arriveth the floods. Then, “after the waters receded”, the plague falleth upon the animals of the field. Then the people runneth on the banks (but let us pass over that). Yet—lo!—there also cometh a man of iron resolve and calm judgment. Doubters encumber him: some, by his own magnanimous admission, say he is “too serious” and “fight[s] too hard”. But he and his plucky brethren smiteth the four apocalyptic horsemen who have threatened to blight “this island's story”.

Okay, so it was just a spot of agricultural disease, a bit of flooding, some photogenic queues and some slap-stick would-be terrorists; still, as he opened his speech to the Labour Party's conference in Bournemouth on September 24th—his first as party leader and prime minister—Gordon Brown portrayed the various mini-crises of his three months in the top job as existential tests that Britain and he had passed together. “This is who we are,” he said of his redoubtable countrymen, a phrase picked up soon afterwards, like a refrain in a bad sonata, in his now-familiar mantra: “This is who *I* am”. This exaggeration is part of Mr Brown's broader strategy for ensconcing himself in his new office, and dispelling the memory of Tony Blair—a person scarcely mentioned in Bournemouth, and then in embarrassed tones as if he were a scandalous old relative, or a politically dead ex-comrade of whom it would be ungentlemanly to speak ill.

This strategy may look unlikely, but it seems to be working. It is the opposite of one Mr Blair once adopted: his “masochism strategy”, designed to neutralise public anger over Iraq—also discussed only fleetingly in Bournemouth, as if the fiasco had vanished too—by exposing himself to its full force in television shows and public meetings. Mr Brown's, by contrast, might be termed the sadism strategy. It involves exposing the country, and the Conservatives, to the full force of Mr Brown.

This will hurt you more than it hurts me

Who Mr Brown is, say his ministers—now exhibiting the sort of devotion that only an 11-point poll lead can inspire—is, first, a proven administrator. The bureaucratic screw-ups of the late Blair imperium, mostly in the Home Office, had threatened to revive an old caricature of Labour incompetence. The floods and the rest gave Mr Brown an early chance to quash it. And scaring people by sadistically exaggerating the perils, if only in retrospect, increases his credit.

Next, say his admirers, and Mr Brown himself, he is a man of strong values, derived from his Presbyterian background. Since he became prime minister, those values have looked increasingly puritanical. Because Mr Brown is virtuous, there will be no more cocaine and ale—or supercasinos and round-the-clock drinking. Playing up the religious *shtick* more than normal, this week he pledged tougher action against drug-dealers, and banged on about work, discipline, service and responsibility. It was grim medicine, sweetened by only half a joke. There was also some outright big-C conservativism: on patriotism, on the countryside, and on guns, drugs and foreigners, and the implied relationship among them. In practical terms, Mr Brown said little that David Cameron, the Tory leader, could not have espoused, had he dared to.

Mr Cameron is, of course, the real target of Mr Brown's strategy, designed as it is to win over actual or would-be Tory voters. The peculiarly sadistic twist is that Mr Brown is posing as precisely the opposite of what he is: as a supra-party leader, too rarefied even to mention Mr Cameron or his Tories in his big speech, who recruits policy and talent wherever he finds them—rather than an ultra-tribalist bent on annihilating his opponents by hijacking their agenda and co-opting their MPs. (One of them, the posh floor-crosser Quentin Davies, received an improbable ovation at Bournemouth for his call to other disgruntled Conservatives to “take the plunge”.) The true goal, as formulated at a fringe meeting by Neil Kinnock, a former Labour leader, is to “grind the [Tory] bastards into dust”.

Not Gordon, just Flash

The sadism strategy, with its relentless insistence on gravity and sobriety, probably began as a tactic, designed to turn Mr Brown's perceived weaknesses—his uncharismatic seriousness—to his advantage. The political chemistry of events has turned the tactic into what now looks like an election-winning strategy. The resulting speculation over an autumn poll is itself a useful weapon: Mr Brown's team have sadistically manipulated it to rattle the Tories. He will probably make his decision on whether to go to the country on the basis of micro-polling in marginal constituencies.

One good reason for him to do so soon is that the sadism strategy cannot last. Persuaded that they live in serious times, and nauseated by Mr Blair's metropolitan suaveness, voters are buying it. But they will probably tire of humourless puritanism soon. With or without an election, Mr Brown will have to come up with a new story.

So far, it is hard to see what that might be. Mr Brown wants the lion to lie down with the lamb, the meek to inherit the earth, cancer to be cured, etc. More prosaically, he wants a proper meritocracy and to improve schools and hospitals—but so does everyone else. He wanted to make the tax system more redistributive, but he already has. It is not yet clear what else his famous values will mean in practice. That is part of how the sadism strategy has wrongfooted the Tories: they were expecting more high ideas and less low politics. But if Mr Brown really is a “conviction politician”, as he claims, then so far (to reverse the slogan invented for him by the Tories' old advertising agency) he has been Not Gordon, Just Flash.

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Climate change

As the waters rise

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SPL

Two summits on global warming lay bare a yawning gap over who needs to do what, as well as the ghost of a deal

Get article background

AS WORLD leaders met to discuss climate change at the United Nations this week, protesters outside seemed unconvinced that drowning islands and expanding deserts were the planet's biggest woe. Latin Americans lamented the imperialism of the United States. Vietnamese with Buddhist flags decried their government's impiety, while émigrés from Iran deplored their rulers' religious fervour.

Inside the building, concerns were almost as diffuse. Some thought the most pressing aspect of climate change was rising sea levels; others, the growing intensity of storms and droughts; and others the spread of pests and diseases. Many poor countries felt more money was needed to address the problem; rich ones fretted about a lack of political will and popular enthusiasm. South Africa wanted more "mainstreaming of women and youth". Bolivia's president, Evo Morales, called capitalism the "worst enemy". A sheikh from the United Arab Emirates said too vigorous a response to global warming could wreck oil-dependent economies. And President George Bush, not content with the UN event, held his own meeting on climate change on September 27th.

In theory, both his gathering and the UN one aimed to foster debate about a successor to the Kyoto protocol, the UN's existing treaty on climate change, which expires in 2012. But the rhetoric surrounding the two deliberations was very different. At the UN meeting, almost every leader spoke of "common but differentiated responsibilities"—jargon for the idea that rich countries must cut their emissions of greenhouse gases, while poor ones carry on as normal unless the rich world pays for them to clean up their act. The White House affair, meanwhile, focused on disseminating green technology. The implicit message was that binding emissions targets are counter-productive, and that any solution must involve poor countries as well as rich ones.

Yvo de Boer, head of the agency that oversees Kyoto and its precursor, the United Nations Framework Convention on Climate Change, says the gulf between America and the rest is less wide than it appears. Although Mr Bush is not yet ready to contemplate a binding international treaty that would limit greenhouse-gas emissions, he does advocate policies that could help trim America's emissions. As it is, states representing over half of America's emissions have pledged cuts of some kind. Congress, meanwhile, is contemplating several bills that would impose a national cap. Australia, the other rich country that rejected Kyoto, is also working on an emissions-reduction plan.

Poor countries, for the most part, are still refusing to accept any targets of their own. They argue that

rich countries have not made enough use of the Clean Development Mechanism (CDM), a scheme under Kyoto that lets countries with emissions-reduction targets meet them in part through projects in poor countries. Cuba's foreign minister, for one, dismissed rich countries' efforts to date as *modestísimo*: he questioned the “moral authority” of leaders like Mr Bush. India merely vowed that its emissions per head would never exceed the level of rich countries, a formula that still permits enormous growth.

But a few developing countries hinted at a more flexible stance. Mexico suggested tying the aid given to poor countries through programmes like the CDM to their efforts to combat climate change. Indonesia's president, amid more talk of “differentiated responsibilities”, said all countries should take on bigger burdens, and told fellow leaders to “think outside the box”. There was much discussion—albeit mostly on the sidelines—of poor countries taking on targets for emissions per head, or per unit of output in certain industries.

All this hints at the shape of things to come. America and Australia can probably be enticed to limit emissions, especially if, as expected, both get new governments in the next year or two. But the oversight and administration of such a deal might be looser than under Kyoto, given America's suspicion of global bureaucrats. Poor countries might be induced to take on targets of some sort, albeit of a less exacting sort than the straight emissions cuts faced by rich countries. But forging such a deal could take an age: neither America nor the UN expect any conclusion before late 2008. Perhaps those low-lying islands should not count on staying dry.

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Economist.com WORLD INTERNATIONAL

Civil liberties: surveillance and privacy

Learning to live with Big Brother

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The second article in our series looks at the new technologies for collecting personal information, and the dangers of abuse

IT USED to be easy to tell whether you were in a free country or a dictatorship. In an old-time police state, the goons are everywhere, both in person and through a web of informers that penetrates every workplace, community and family. They glean whatever they can about your political views, if you are careless enough to express them in public, and your personal foibles. What they fail to pick up in the café or canteen, they learn by reading your letters or tapping your phone. The knowledge thus amassed is then stored on millions of yellowing pieces of paper, typed or handwritten; from an old-time dictator's viewpoint, exclusive access to these files is at least as powerful an instrument of fear as any torture chamber. Only when a regime falls will the files either be destroyed, or thrown open so people can see which of their friends was an informer.

These days, data about people's whereabouts, purchases, behaviour and personal lives are gathered, stored and shared on a scale that no dictator of the old school ever thought possible. Most of the time, there is nothing obviously malign about this. Governments say they need to gather data to ward off terrorism or protect public health; corporations say they do it to deliver goods and services more efficiently. But the ubiquity of electronic data-gathering and processing—and above all, its acceptance by the public—is still astonishing, even compared with a decade ago. Nor is it confined to one region or political system.

AP

That old-time data: East Germany's files

In China, even as economic freedom burgeons, millions of city-dwellers are being issued with obligatory high-tech “residency” cards. These hold details of their ethnicity, religion, educational background, police record and even reproductive history—a refinement of the identity papers used by communist regimes.

Britain used to pride itself on respecting privacy more than most other democracies do. But there is not much objection among Britons as “talking” surveillance cameras, fitted with loudspeakers, are installed, enabling human monitors to shout rebukes at anyone spotted dropping litter, relieving themselves against a wall or engaging in other “anti-social” behaviour.

Even smarter technology than that—the sort that has been designed to fight 21st century wars—is being used in the fight against crime, both petty and serious. In Britain, Italy and America, police are experimenting with the use of miniature remote-controlled drone aircraft, fitted with video cameras and infra-red night vision, to detect “suspicious” behaviour in crowds. Weighing no more than a bag of sugar and so quiet that it cannot be heard (or seen) when more than 50 metres (150 feet) from the ground, the battery-operated UAV (unmanned aerial vehicle) can be flown even when out of sight by virtue of the images beamed back to a field operator equipped with special goggles. MW Power, the firm that distributes the technology in Britain, has plans to add a “smart water” spray that would be squirted at suspects, infusing their skin and clothes with genetic tags, enabling police to identify them later.

Most of the time, the convenience of electronic technology, and the perceived need to fight the bad guys, seems to outweigh any worries about where it could lead. That is a recent development. On America's religious right, it was common in the late 1990s to hear dark warnings about the routine use of electronic barcodes in the retail trade: was this not reminiscent of the “mark of the beast” without which “no man might buy or sell”, predicted in the final pages of the Bible? But today's technophobes, religious or otherwise, are having to get used to devices that they find even spookier.

Take radio-frequency identification (RFID) microchips, long used to track goods and identify family pets; increasingly they are being implanted in human beings. Such implants are used to help American carers keep track of old people; to give employees access to high-security areas (in Mexico and Ohio); and even to give willing night-club patrons the chance to jump entry queues and dispense with cash at the bar (in Spain and the Netherlands). Some people want everyone to be implanted with RFIDs, as the answer to identity theft.

Across the rich and not-so-rich world, electronic devices are already being used to keep tabs on ordinary citizens as never before. Closed-circuit television cameras (CCTV) with infra-red night vision peer down at citizens from street corners, and in banks, airports and shopping malls. Every time someone clicks on a web page, makes a phone call, uses a credit card, or checks in with a microchipped pass at work, that person leaves a data trail that can later be tracked. Every day, billions of bits of such personal data are stored, sifted, analysed, cross-referenced with other information and, in many cases, used to build up profiles to predict possible future behaviour. Sometimes this information is collected by governments; mostly it is gathered by companies, though in many cases they are obliged to make it available to law-enforcement agencies and other state bodies when asked.

Follow the data

The more data are collected and stored, the greater the potential for “data mining”—using mathematical formulas to sift through large sets of data to discover patterns and predict future behaviour. If the public had any strong concerns about the legitimacy of this process, many of them evaporated on September 11th 2001—when it became widely accepted that against a deadly and globally networked enemy, every stratagem was needed. Techniques for processing personal information, which might have raised eyebrows in the world before 2001, suddenly seemed indispensable.

Two days after the attacks on New York and Washington, Frank Asher, a drug dealer turned technology entrepreneur, decided to examine the data amassed on 450m people by his private data-service company, Seisint, to see if he could identify possible terrorists. After giving each person a risk score based on name, religion, travel history, reading preferences and so on, Mr Asher came up with a list of 1,200 “suspicious” individuals, which he handed to the FBI. Unknown to him, five of the terrorist hijackers were on his list.

The FBI was impressed. Rebranded the Multistate Anti-Terrorism Information Exchange, or Matrix, Mr Asher's programme, now taken over by the FBI, could soon access 20 billion pieces of information, all of them churned and sorted and analysed to predict who might one day turn into a terrorist. A new version, called the System to Assess Risk, or STAR, has just been launched using information drawn from both private and public databases. As most of the data have already been disclosed to third parties—airline tickets, job records, car rentals and the like—they are not covered by the American constitution's Fourth Amendment, so no court warrant is required.

In an age of global terror, when governments are desperately trying to pre-empt future attacks, such profiling has become a favourite tool. But although it can predict the behaviour of large groups, this technique is “incredibly inaccurate” when it comes to individuals, says Simon Wessely, a professor of psychiatry at King's College London. Bruce Schneier, an American security guru, agrees. Mining vast amounts of data for well-established behaviour patterns, such as credit-card fraud, works very well, he says. But it is “extraordinarily unreliable” when sniffing out terrorist plots, which are uncommon and rarely have a well-defined profile.

By way of example, Mr Schneier points to the Automated Targeting System, operated by the American Customs and Border Protection, which assigns a terrorist risk-assessment score to anyone entering or leaving the United States. In 2005 some 431m people were processed. Assuming an unrealistically accurate model able to identify terrorists (and innocent people) with 99.9% accuracy, that means some 431,000 false alarms annually, all of which presumably need checking. Given the unreliability of passenger data, the real number is likely to be far higher, he says.

Those caught up in terrorist-profiling systems are not allowed to know their scores or challenge the data. Yet their profiles, which may be shared with federal, state and even foreign governments, could damage their chances of getting a state job, a student grant, a public contract or a visa. It could even prevent them from ever being able to fly again. Such mistakes are rife, as the unmistakable Senator “Ted” Kennedy found to his cost. In the space of a single month in 2004, he was prevented five times from getting on a flight because the name “T Kennedy” had been used by a suspected terrorist on a secret

“no-fly” list.

Watching everybody

Another worry: whereas information on people used to be gathered selectively—following a suspect's car, for example—it is now gathered indiscriminately. The best example of such universal surveillance is the spread of CCTV cameras. With an estimated 5m CCTV cameras in public places, nearly one for every ten inhabitants, England and Wales are among the most closely scrutinised countries in the world—along with America which has an estimated 30m surveillance cameras, again one for every ten inhabitants. Every Briton can expect to be caught on camera on average some 300 times a day. Few seem to mind, despite research suggesting that CCTV does little to deter overall crime.

In any case, says Britain's “NO2ID” movement, a lobby group that is resisting government plans to introduce identity cards, cameras are a less important issue than the emergence of a “database state” in which the personal records of every citizen are encoded and too easily accessible.

Alongside fingerprints, DNA has also become an increasingly popular tool to help detect terrorists and solve crime. Here again Britain (minus Scotland) is a world leader, with the DNA samples of 4.1m individuals, representing 7% of the population, on its national database, set up in 1995. (Most other EU countries have no more than 100,000 profiles on their DNA databases.) The British database includes samples from one in three black males and nearly 900,000 juveniles between ten and 17—all tagged for life as possible criminals, since inclusion in the database indicates that someone has had a run-in with the law. This is because in Britain, DNA is taken from anyone arrested for a “recordable” offence—usually one carrying a custodial sentence, but including such peccadillos as begging or being drunk and disorderly. It is then stored for life, even if that person is never charged or is later acquitted. No other democracy does this.

In America, the federal DNA databank holds 4.6m profiles, representing 1.5% of the population. But nearly all are from convicted criminals. Since January 2006 the FBI has been permitted to take DNA samples on arrest, but these can be expunged, at the suspect's request, if no charges are brought or if he is later acquitted. Of some 40 states that have their own DNA databases, only California allows the permanent storage of samples of those charged, but later cleared. In Britain, where people cannot ask for samples to be removed from the database, it was recently proposed that the best way to prevent discrimination is therefore to include the whole population in the DNA database, plus all visitors to the country. Although this approach is commendably fair, it would be extremely expensive as well as an administrative nightmare.

In popular culture, the use of DNA has become rather glamorous. Tabloids and television dramas tell stories of DNA being used by police to find kidnappers or exonerate convicts on death row. According to a poll carried out for a BBC “Panorama” programme this week, two-thirds of Britons would favour a new law requiring that everyone's DNA be stored. But DNA is less reliable as a crime-detection tool than most people think. Although it almost never provides a false “negative” reading, it can produce false “positives”. Professor Allan Jamieson, director of the Forensic Institute in Glasgow, believes too much faith is placed in it. As he points out, a person can transfer DNA to a place, or weapon, that he (or she) has never seen or touched.

Wiretapping is too easy

More disturbing for most Americans are the greatly expanded powers the government has given itself over the past six years to spy on its citizens. Under the Patriot Act, rushed through after the 2001 attacks, the intelligence services and the FBI can now oblige third parties—internet providers, libraries, phone companies, political parties and the like—to hand over an individual's personal data, without a court warrant or that person's knowledge, if they claim that the information is needed for “an authorised investigation” in connection with international terrorism. (Earlier this month, a federal court in New York held this to be unconstitutional.)

Under the Patriot Act's “sneak and peek” provisions, a person's house or office can likewise now be searched without his knowledge or a prior court warrant. The act also expanded the administration's ability to intercept private e-mails and phone calls, though for this a court warrant was supposedly still needed. But in his capacity as wartime commander-in-chief, George Bush decided to ignore this requirement and set up his own secret “warrantless” eavesdropping programme.

The outcry when this was revealed was deafening, and the programme was dropped. But in August Mr Bush signed into law an amendment to the 1978 Foreign Intelligence Surveillance Act, allowing the warrantless intercept of phone calls and e-mails if at least one of the parties is “reasonably believed” to be outside America. So ordinary Americans will continue to be spied on without the need for warrants—but no one is protesting, because now it is legal.

Where's your warrant?

According to defenders of warrantless interception, requiring warrants for all government surveillance would dramatically limit the stream of foreign intelligence available. Privacy should not be elevated above all other concerns, they argue. But would it really impede law-enforcement that much if a judge was required to issue a warrant on each occasion? Technology makes wiretapping much easier than it used to be—too easy, perhaps—so requiring warrants would help to restore the balance, say privacy advocates.

Britain has long permitted the “warrantless” eavesdropping of its citizens (only the home secretary's authorisation is required), and few people appear to mind. What does seem to worry people is the sheer volume of information now being kept on them and the degree to which it is being made accessible to an ever wider group of individuals and agencies. The government is now developing the world's first national children's database for every child under 18. The National Health Service database, already the biggest of its kind in Europe, will eventually hold the medical records of all 53m people in England and Wales.

Even more controversial is Britain's National Identity Register, due to hold up to 49 different items on everyone living in the country. From 2009, everybody is to be issued with a “smart” biometric ID card, linked to the national register, which will be required for access to public services such as doctors' surgeries, unemployment offices, libraries and the like—leaving a new, readily traceable, electronic data-trail. America plans a similar system, with a string of personal data held on a new “smart” national driver's licence that would double up as an ID.

Companies are also amassing huge amounts of data about people. Most people do not think about what information they are handing over when they use their credit or shop “loyalty” card, buy something online or sign up for a loan. Nor do they usually have much idea of the use to which such data are subsequently put. Not only do companies “mine” them to target their advertising more effectively, for example, but also to give their more valued (ie, higher-spending) customers better service. They may also “share” their data with the police—without the individual's consent or knowledge.

Most democratic countries now have comprehensive data-protection and/or privacy laws, laying down strict rules for the collection, storage and use of personal data. There is also often a national information or privacy commissioner to police it all (though not in America). Intelligence agencies, and law-enforcement authorities often as well, are usually exempt from such data-protection laws whenever national security is involved. But such laws generally stipulate that the data be used only for a specific purpose, held no longer than necessary, kept accurate and up-to-date and protected from unauthorised prying.

That all sounds great. But as a series of leaks in the past few years has shown, no data are ever really secure. Laptops containing sensitive data are stolen from cars, backup tapes go missing in transit and hackers can break into databases, even the Pentagon's. Then there are “insider attacks”, in which people abuse the access they enjoy through their jobs. National Health Service workers in Britain were recently reported to have peeked at the intimate medical details of an unnamed celebrity. All of this can lead to invasions of privacy and identity theft. As the Surveillance Studies Network concludes in its recent report on the “surveillance society”, drawn up for Britain's information commissioner, Richard Thomas, “The jury is out on whether privacy regulation...is not ineffective in the face of novel threats.”

Boiling the frog

If the erosion of individual privacy began long before 2001, it has accelerated enormously since. And by no means always to bad effect: suicide-bombers, by their very nature, may not be deterred by a CCTV camera (even a talking one), but security wonks say many terrorist plots have been foiled, and lives saved, through increased eavesdropping, computer profiling and “sneak and peek” searches. But at what cost to civil liberties?

Privacy is a modern “right”. It is not even mentioned in the 18th-century revolutionaries' list of demands. Indeed, it was not explicitly enshrined in international human-rights laws and treaties until after the second world war. Few people outside the civil-liberties community seem to be really worried about its loss now.

That may be because electronic surveillance has not yet had a big impact on most people's lives, other than (usually) making it easier to deal with officialdom. But with the collection and centralisation of such vast amounts of data, the potential for abuse is huge and the safeguards paltry.

Ross Anderson, a professor at Cambridge University in Britain, has compared the present situation to a “boiled frog”—which fails to jump out of the saucepan as the water gradually heats. If liberty is eroded slowly, people will get used to it. He added a caveat: it was possible the invasion of privacy would reach a critical mass and prompt a revolt.

If there is not much sign of that in Western democracies, this may be because most people rightly or wrongly trust their own authorities to fight the good fight against terrorism, and avoid abusing the data they possess. The prospect is much scarier in countries like Russia and China, which have embraced capitalist technology and the information revolution without entirely exorcising the ethos of an authoritarian state where dissent, however peaceful, is closely monitored.

On the face of things, the information age renders impossible an old-fashioned, file-collecting dictatorship, based on a state monopoly of communications. But imagine what sort of state may emerge as the best brains of a secret police force—a force whose house culture treats all dissent as dangerous—perfect the art of gathering and using information on massive computer banks, not yellowing paper.

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America's car industry

A turning point for Detroit

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Getty Images

If GM's deal with the UAW is ratified, the Big Three could have a future after all

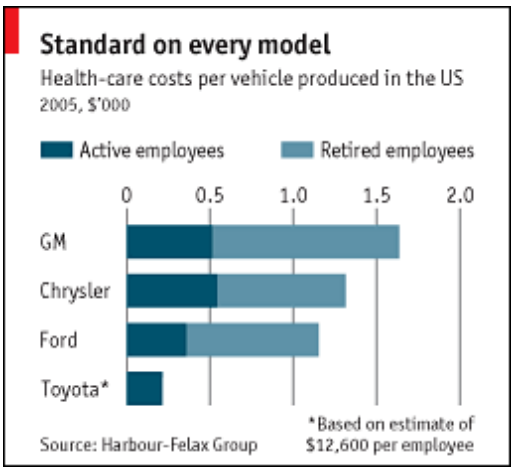
PERHAPS a bit of drama was just what was needed to bring the long-drawn-out negotiations between General Motors (GM) and the United Auto Workers (UAW) union to a conclusion that both sides could live with. On the morning of September 24th the UAW's 74,000 members at GM began spilling out of the carmaker's factories and grabbing picket signs. Launching a nationwide strike for the first time in 37 years, the union's leader, Ron Gettelfinger, struck a tone more of sorrow than anger. The union had done everything it could to reach a deal, he said, including talking for an unprecedented nine days after the lapse of the old contract. But on the picket lines there was an almost celebratory mood and promises that the strike would last “for as long as it takes”.

Perhaps this was because nobody expected it to take very long. Less than 48 hours later the strike was over and a “tentative agreement” between GM and the UAW had been reached. Indeed, there was almost an element of choreography in the strike. Both sides needed to convince their constituents—the union its members, GM its investors—that they were playing hardball. From GM's point of view the short strike may even have been a blessing: the halt in production gave it a chance to reduce its stockpile of unsold vehicles.

The centrepiece of the deal, if ratified by UAW members over the next few days, is the creation of an independent trust, administered by the union, that will take on some $51 billion in health-care liabilities relating to GM's existing employees and over 280,000 of its retired workers. The more Detroit's Big Three—GM, Ford and Chrysler—have done to reduce capacity and improve productivity, the more heavily such legacy costs have hung around their necks. In a country in which over 50m people have no health insurance, UAW members enjoy top-level coverage. Health-care costs add as much as $1,600 to the cost of every vehicle produced in Detroit (see chart).

That cost penalty has had an increasingly corrosive effect on the Big Three's ability to compete. This year foreign brands captured more than half the American market for the first time, with Toyota overtaking Ford. The weak dollar would once have given Detroit some protection, but no longer, because of the ever-expanding number of “transplant” production lines. Nissan, Honda and Toyota, for example, produce well over half the vehicles they sell

in North America in locally based factories that employ younger, frequently non-unionised workers. According to Joe Phillippi of AutoTrends Consulting, Detroit's labour costs are about $30 an hour more than those of the transplants.



The (partial) solution that has been pushed by GM and is now accepted by the union is a Voluntary Employee Beneficiary Association (VEBA). This is essentially a trust fund set up to pay for the otherwise uncapped health-care benefits of its retired workers. Critically for GM, setting up a VEBA with about $35 billion would allow it to get the liability off its balance sheet and to do so at a discount of about 70 cents on the dollar, reflecting anticipated future returns of the trust.

The upside for the union is twofold. Most importantly, it protects its members against the possibility of the employer becoming bankrupt, no longer an absurd notion after Ford reported a $12.7 billion loss last year. Investing and managing the huge pot of cash will also provide a new *raison d'être* for the union after nearly 30 years of decline, during which its active membership has shrivelled from 1.5m to 576,000.

But there is also a potential downside, as the UAW has learnt to its cost. Two earlier VEBAs, set up at Detroit Diesel and Caterpillar, have gone bust. Retired Caterpillar workers filed suit against the firm in May, and a federal judge in Nashville certified the suit as a class action in July. Despite this, the union appeared to accept the idea of a VEBA early on in the negotiations. Mr Gettelfinger said the strike was “not about the VEBA in any shape or form” and he claims that the trust will be sufficient to secure the benefits for every hourly-paid worker at GM, as well as the retired workers, for the next 80 years.

Instead, the sticking point for the UAW was future job-security. Under its restructuring plans, GM is cutting 30,000 jobs by the end of next year. Mr Gettelfinger wanted a commitment from GM's boss, Rick Wagoner, that there would be no further cull of his members beyond this. It is hard to believe that Mr Wagoner could give such an assurance other than in the vaguest terms. But one important concession the union has won is that up to 5,000 temporary workers at GM will be hired as full-timers paid at what is known as the “tier-one” wage and compensation rate, worth nearly $75 an hour. At the same time, however, the UAW has also accepted that new members employed by GM, other than skilled engineers and designers, will work for rates close to those found in the transplant factories.

Now the union will shift its attention to Ford and Chrysler in the hope of getting similar deals. Ford is the weakest financially and would have most to lose from a protracted strike, given its loan covenants. Chrysler, now owned by a private-equity group, might prove a tougher nut, but the tendency in the past has been for the three carmakers to fly in close formation when it comes to contract settlements.

If so, the prospects for the Big Three will look brighter than they have for many years. Even though the transplant factories will still enjoy some cost advantages, Detroit's carmakers will have more money to invest in new models than before and, with stronger balance sheets, they should be able to borrow more cheaply. Now all they have to do is build more of the kinds of cars that Americans want to drive.

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Aviation in China

Dog fight

Sep 27th 2007 | HONG KONG
From The Economist print edition

A fight in Shanghai between two airlines ends Chinese-style: mysteriously

Get article background

CONTROL of the world's aviation hubs is so thoroughly locked up that the possibility one of them might be up for grabs is almost inconceivable. Hence the excitement when a fight broke out over access to Shanghai, before coming abruptly to a halt on September 24th.

It is hard to overstate Shanghai's attractiveness to airlines. The number of passengers handled by the city's two airports, Pudong and Hongqiao, has increased by more than 20% a year for five years, compared with single-digit growth at most of the world's big airports. Companies' operations in China require personal attention, so as business expands westward from the coastal cities, demand for easy access by air will only increase.

The dominant airline in Shanghai, with a market share of 37%, is China Eastern Airlines. Barely profitable, poorly managed and in need of investment, it has been in talks for more than a year with Singapore Airlines, one of the world's best airlines. China Eastern's share price began to move up sharply in May and nearly tripled during September on the announcement that Singapore Airlines would take a 15.7% share in the company and that Temasek, the Singaporean state-owned investment company, would purchase 8.3%. The deal, which would provide almost $1 billion for new investment, was approved by Chinese officials at cabinet level.

The prospect of a better managed, well-capitalised competitor sent a shudder through Air China, another government-controlled airline, which has a 20% market share in Shanghai. It also alarmed Air China's partner, Hong Kong's Cathay Pacific, which dominates the lucrative Hong Kong route through a subsidiary, Dragonair. Rumours abounded that Cathay was preparing to announce a rival bid for China Eastern. Both airlines' share prices shot up. On September 21st Cathay's shares were suspended pending an announcement about “a proposed transaction”. But instead Cathay Pacific said on September 24th that it had no plans to bid for China Eastern. It gave no reason, but political pressure from the Chinese government is believed to have scuppered its plans.

Passengers probably do not mind whether it is Singapore or Cathay that takes a stake in China Eastern—service is bound to improve either way. There is talk of some sort of a tie-up between China Southern, the third of China's big airlines, and Air France-KLM, which would also lead to improvements. But evidently the government's enthusiasm for genuine competition goes only so far. This week's pre-emption of a bidding war left no doubt about who in China controls not just the ground, but the skies too.

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Chinese manufacturing

Plenty of blame to go around

Sep 27th 2007 | LONDON AND SHENZHEN
From The Economist print edition

Mattel tries to rescue its relationship with its Chinese suppliers

Get article background

THE apology was late, reluctant and was no sooner made than it was partly retracted. “Mattel takes full responsibility for these recalls and apologises personally to you, the Chinese people and all of our customers who received the toys,” said Thomas Debrowski, a senior executive at the world's biggest toymaker, which has had to recall 21m toys this year. His words came in a meeting in Beijing on September 21st with Li Changjiang, the chief of China's quality watchdog. But a few hours later Mattel said that the nature of the meeting had been “mischaracterised”. The apology in Beijing was not a kowtow to the Chinese, it said, but merely an elaboration of the apology it had already made to consumers all over the world.

AP

Sorry, sort of

Mr Debrowski had not intended to talk to Mr Changjiang in the presence of journalists, but Chinese officials made it a condition for the meeting. After months of what they consider to be unfair accusations of shoddy production, the Chinese felt a public apology was long overdue. On September 5th Mattel had told an American Congressional committee that its recall of 17.4m toys containing a small magnet that could be swallowed by children was due to a flaw in the toys' design, rather than production flaws in China. As for some other toys recalled because of allegedly hazardous levels of lead in their paint, Mattel admitted that it had been overzealous and is likely to have recalled toys that did not contravene American regulations on lead content.

“Mattel has a China problem and a supply-chain problem,” says Jean-Pierre Lehmann, an Asia expert at IMD, a business school in Lausanne. The company is dependent on cheap Chinese production for most of its wares, so it has little bargaining power and can be bounced into an apology. Of the roughly 800m toys Mattel produces every year, more than two-thirds are made in China and about half are made at the company's own plants. The firm says subcontractors have to comply with safety and quality standards specified for each toy. It does not add that it is also up to Mattel to check for compliance and not to be cavalier towards its own rules.

And that is the nub of the problem. Western companies in China are operating in a largely lawless environment. There is hardly any effective regulation and little recourse to law. Yan Jiangying of the State Food and Drug Administration (SFDA) admitted this week that the country's “supervisory foundations are still weak”. In August the government published its first white paper on food safety in the wake of 96 deaths from food poisoning in the first half of the year. With oversight of food safety spread between five different ministries, responsibilities are still murky. The Chinese have no culture of compliance and cut corners on safety and quality when squeezed on price, says Susan Aaronson of the George Washington

University School of Business in Washington, DC.

So western firms doing business in China have a responsibility to do their homework and keep a vigilant eye on their suppliers. Buyers of toothpaste or dog food, which have also been subject to safety scares and recalls this year, should have known that more than one-fifth of China's food products failed government safety-tests last year. Corruption, blackmail and counterfeiting are rampant. Eight buyers at Carrefour, a French supermarket chain, are under investigation for accepting kickbacks from suppliers. Zheng Xiaoyu, a former boss of the SFDA, was executed earlier this year for taking bribes to approve fake drugs and certificates claiming that the paint used by Mattel's suppliers was lead-free. Yet many foreign managers working locally say bosses in Europe or America do not understand these problems, or do not want to hear about them.

Chinese firms, for their part, complain that they are bullied by foreign purchasing managers to cut costs. This forces them to squeeze their own suppliers, with unpredictable consequences. Local firms also moan about having to meet the complex logistical demands of foreign customers in a country where such costs are typically 15% higher than in the West, according to Jürgen Kracht at Fiducia, a consultancy.

Mr Lehmann says the Chinese focus on high-volume, low-cost manufacturing has worked well in the initial phase of the country's economic take-off. But producers must now pay more attention to quality, brand development, governance and transparency, he says, or more harm will be done to “Made in China”. Almost 40% of British consumers are less likely to buy Chinese-made toys because of Mattel's recall crisis, according to a YouGov survey commissioned by *Marketing Week*, a trade publication. Hamleys, a toy shop, says it is thinking about sourcing more toys from Europe. This Christmas is unlikely to be quite as festive as usual for Mattel's managers, suppliers or shareholders.

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Commercial aviation

Barrelling along

Sep 27th 2007 | GROTTAGLIE
From The Economist print edition

Boeing has hit some snags with the 787, but still has the edge over Airbus's A350

Get article background

Aviation Images

That's the way to do it

IN GROTTAGLIE, near Taranto in the heel of Italy, they are working on the central-fuselage sections of Boeing's new 787 Dreamliner. The town's vast new factory was built by Alenia Aeronautica, one of several "risk-sharing partners" (RSPs) selected by Boeing to produce the new aircraft. It is startlingly unlike a traditional airframe-manufacturing site, where aluminium panels are banged into place over a metal skeleton. Very few people are around. There is not much noise nor much sign of activity. The factory floor is dominated by the huge cylindrical "mandrels" that are used to mould the two composite barrels which will form about half the fuselage of the new plane. White-coated workers supervise machines as they wind graphite tape around the mandrels. The barrels are then coated in resin and cured in an oven the size of a small hangar.

After windows and doors have been cut into them, the barrels trundle out to a waiting Dreamlifter (a modified Boeing 747 with a grotesquely swollen body), which flies them to Vought Aircraft Industries in Charleston, South Carolina, another RSP. There they are worked on further before being flown to Boeing's Everett assembly line near Seattle, where the 787 is put together from parts flown in from Asia, Europe and North America.

In recent weeks Boeing has admitted to production problems with the 787 that have delayed its first flight by several months (it will probably now happen in December). This has cast doubt on Boeing's ability to deliver the first aircraft, to All Nippon Airways, in May 2008. Boeing stubbornly insists that it can meet its commitments by doing around-the-clock flight-testing. "We're essentially going to be running an airline, 24 hours a day, seven days a week," says Mike Bair, the director of the 787 programme.

There has also been a flurry of controversy over the safety of composite planes, triggered by a disillusioned former Boeing engineer. But Boeing's share price has shrugged off both the "seven-late-seven" jibe and the idea that its new aircraft might be less safe than today's designs. As the firm is quick to point out, composites are hardly a new material for the aerospace industry. What is revolutionary is the way the 787 is built and the amount of composites in each aircraft—fully half of the structure. The result is a plane that burns a fifth less fuel and one that is more pleasant to fly in, since composites allow for bigger windows and higher cabin pressure.

Boeing can also fairly claim that neither the plane's design nor its method of construction is to blame for the delays to its first flight. The real causes are a global shortage of aluminium fasteners, which the company claims is well on the way to being fixed, and some lateness on the part of Honeywell, another RSP, in finishing the software for the flight-control system.

None of this, however, is likely to detract from the 787's success. Boeing has received 734 firm orders from 49 airlines in the three years since the 787 was officially launched, a feat unmatched in commercial-aviation history. The firm remains confident that it will still make its target of 112 deliveries by the end of 2009. It can also take comfort from the mis-steps of Airbus, its European rival. Distracted by the wiring problems that contributed to a delay of nearly two years in delivering the first A380 (now expected in the middle of October and bolstered by the news this week that British Airways will buy 12 of the "superjumbos"), Airbus is only now finalising the design of the plane that will do battle with the 787, the slightly larger A350, which is due to take to the air in 2012.

Under pressure from both airlines and the big aircraft-leasing firms, which have insisted on a genuine competitor to Boeing's plane, the A350 has become more and more like the 787. Last week Airbus said that as well as using carbon-fibre panels for the main fuselage skin, it was switching from aluminium to carbon fibre for the fuselage frames too.

As a result, the role of composite materials in the A350 will be at least as big as in the 787. Fabrice Brégier, Airbus's chief of operations, puts the figure at around 53%. But in contrast with the 787's “single barrel” design of linked cylinders, the A350's fuselage will consist of many more pieces, with many more joints. Airbus says this will be cheaper than Boeing's approach, but the reality is that it does not have much choice, because most of the necessary technology belongs to Boeing.

Mr Brégier insists that the A350 will be every bit as light and efficient as the 787, and even better for passengers because of its greater width. He points to 230 firm orders and the prospect of 300 by the end of the year. He believes Airbus will win its fair share of an expected market of 4,500 planes of the 787/A350 type over the next 20 years. But a visit to Grottaglie leaves a powerful impression that Boeing's “single barrel” approach, with its inherent simplicity, strength and flexibility, is the future of airframe construction. Used to being the industry's technology leader, Airbus will need all its skill and determination to catch up.

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Telecoms in the Caribbean

The Irish are coming

Sep 27th 2007 | MIAMI
From The Economist print edition

Mobile phones are spreading as competition heats up and prices fall

Get article background

WHEN Digicel, an Irish mobile-phone operator, decided to invest heavily in Haiti last year, it raised eyebrows. How on earth did Digicel's maverick owner, Dennis O'Brien, hope to make money in such a poor country? “You don't look at GDP. You ignore that,” says Mr O'Brien. Sure enough, Digicel signed up new customers so fast that the company had to rewrite its business plan after the first week. After just 15 months it has signed up 1.7m customers, compared with the 1m shared by its two rivals, Comcel and Haitel. Digicel's assault on Haiti is only the latest in a series of Caribbean conquests. Since the company set up in Jamaica in April 2001 it has established a presence in 22 markets in the region and has amassed some 5m customers. Mr O'Brien says he has invested $1.9 billion in total, including $260m in Haiti.

Digicel has prospered by introducing modern technology and innovative services into stodgy, uncompetitive markets. Its entry into Jamaica led to drastic reductions in prices and showed the region just how much it stood to gain from liberalisation. Digicel used a similar recipe in Haiti. “We floored prices and gave people a better service,” says Mr O'Brien. Pre-paid billing, based on top-up cards, makes phones more affordable to those outside the business and political elites. Digicel has also introduced novel twists of its own, such as the ability to send free “call me” text messages to other people.

But some analysts predict the company's rapid growth may now have peaked. Competition is heating up as operators in Latin America, where growth is now slowing, look to new markets in the Caribbean and Central America. In particular, América Móvil, the world's fifth-largest mobile operator, announced its intention in August to buy Oceanic Digital, a small Jamaican phone company that operates under the MiPhone brand. América Móvil has 140m customers in Mexico, Brazil, Colombia and the United States. Jamaica would be its third Caribbean market. It already has operations in Puerto Rico and the Dominican Republic. Like Digicel, it relies on strong branding, modern technology and cut-price tariffs.

“Digicel's easy ride is over,” says Jose Otero, an analyst at Signals Telecom Consulting. “This is the first time they are going to face someone who is used to competing in the global market with better financial strength and government relations.”

América Móvil's move looks like retaliation after Digicel began operations in El Salvador. Digicel has also acquired a licence in Guatemala, and says it is looking next at Honduras, Nicaragua and Panama. A price war in Jamaica could be bad for Cable & Wireless, a British firm that operates several networks in the Caribbean. It is hoping that its ability to offer both fixed and wireless services will prove to be an advantage. Whether or not that turns out to be so, consumers will benefit from the increased competition.

Digicel's critics say it has used underhand tactics, such as giving away free phones to journalists (though other firms do the same), and breaking industry rules by treating Haiti as part of Jamaica in order to offer cheap roaming. Haiti's regulator, Conatel, found Digicel to be in violation of international standards, but was overruled by the government. Such rulings have also led to allegations that Digicel has undue political influence in some markets.

But officials deny any impropriety and credit Digicel with making the market more affordable for Haiti's poor majority. “Haiti needs more foreign investment like this, both for the jobs and for the ‘best practices’ business models that it injects into this antiquated, non-customer-friendly business environment,” says a senior Haitian official. Mr O'Brien claims he has grown used to all the criticism, and suggests that jealous rival operators are behind it. “The problem with them is that they are too flat-footed,” he says.

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The magazine industry

Out of vogue

Sep 27th 2007
From The Economist print edition

Although healthier than newspapers, consumer magazines have problems

Emily Field

Who wants to buy some magazines?

THIS week bankers have a perfect excuse to pore over pictures of scantily clad models, fast cars and film stars: Emap, a British media firm that straddles consumer magazines, radio and trade exhibitions, is up for sale, and bids are due by early October. Emap has 50 magazine titles, which produced revenues of £408m ($773m) in the year to March 2007, and its sale will attract international attention. Foreign publishers are expected to bid, as are private-equity firms. The outcome will be a timely judgment on the prospects for consumer-magazine publishers in the developed world.

In America and Europe magazine publishers have a common lament: total circulation is either flat or declining slightly as people devote more time to the internet, and an ever greater share of advertising spending is going online. Magazine units are mostly a drag on growth for their parents. Time Inc, the world's biggest magazine company, has to fend off rumours that its parent, Time Warner, will sell it. People in the industry expect that Time Warner will soon sell IPC Media, its British magazine subsidiary. In Germany publishers reckon that Bertelsmann, a media conglomerate, may sell Gruner + Jahr, its magazine unit, when its new chief executive takes over in January 2008.

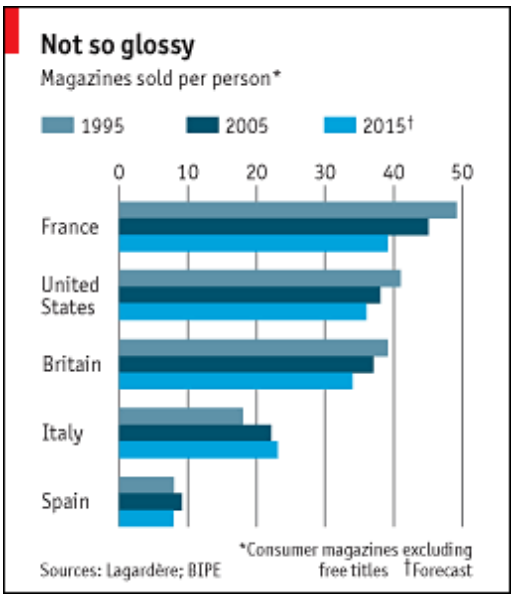
“It's a long, slow sunset for ink-on-paper magazines,” says Felix Dennis, a publishing entrepreneur, “but sunsets can produce vast sums of money.” He recently sold his firm's American arm, which publishes *Maxim*, a racy men's magazine, to Quadrangle Capital Partners, a private-equity business, for a reported $240m.

The business model for consumer magazines is under pressure from several directions at once, both online and off. Magazines have become more expensive to launch, and the cost of attracting and keeping new subscribers has risen. In America newsstand sales have been worryingly weak, partly because supermarkets dominate distribution and shelf-space is in short supply.

The internet's popularity has hit men's titles the hardest. *FHM*, Emap's flagship “lads” magazine, for instance, lost a quarter of its circulation in the year to June, its lingerie-clad lovelies finding it hard to compete with online porn. Not long ago consumer magazines were Emap's prize asset, but slowing growth from the division contributed to the company's decision to put itself up for sale. Men's magazines are in trouble in most developed-world markets. In France, America and Italy, the three biggest magazine markets for Lagardère Active, part of Lagardère, a French conglomerate, men have quickly switched from magazines to online services, says Carlo d'Asaro Biondo, the division's head of international operations. “We have solved the problem in the automotive sector with new web services,” he says, “but no magazine publisher has cracked the problem as a whole yet.”

There are good reasons why magazine owners should not feel despondent, however. For readers, many of the pleasing characteristics of magazines—their portability and glossiness, for instance—cannot be matched online. And magazines are not losing younger readers in droves in the way that newspapers are. According to a study carried out last year by the digital arm of Ogilvy Group, a communications company, appetite for magazines is largely unchanged between older “baby boomers” and young “millennials”.

On the advertising side, magazines are faring much better than newspapers, which are losing big chunks of revenue as classified advertising shifts online. Advertisers like the fact that in many genres, such as fashion, readers accept and value magazine ads and even consider them part of the product.



Unfortunately, magazine publishers have been slow to get onto the internet. “Eighteen months ago the internet was something they worried about after 4pm on Friday,” says Peter Kreisky, a consultant to the media industry, “but now it's at the heart of their business model.” Meredith, a magazine publisher from the mid-west of America with old-fashioned brands such as *Better Homes and Gardens*, recently held an internet “boot-camp” for its executives to teach them internet basics.

To their credit, big magazine firms are doing far more than replicating their print products online. Whereas newspapers have concentrated on transferring print journalism to the internet, magazines offer people useful, fun services online—Lagardère's *Car and Driver* website, for instance, offers virtual test drives, and *Better Homes and Gardens* online has a 3D planning tool to help people redesign their homes.

Magazine firms disagree on whether to take existing brands online or try to do something new for the internet. Condé Nast believes it can cast a wider net by creating themed websites that use some magazine content but also go beyond to appeal to a bigger market. “You've got to have scale on the internet, and magazine brands can be limiting online,” says Sarah Chubb, president of CondéNet, the firm's internet division, which runs a number of portals such as STYLE.com. Some magazine editors have objected. Anna Wintour, the editor-in-chief of *Vogue*, is said to have noted the popularity of STYLE.com and asked why it couldn't be called Vogue.com. (American *Vogue* will in fact get its own website soon.)

Time Inc, in contrast, has stuck to its big magazine brands with People.com and with SI.com, its website for *Sports Illustrated*. The price, competitors say, is that Time Inc cannot do the sort of sarcastic, bitchy celebrity gossip that people like on the internet for fear of tarnishing the brand of *People*, and therefore cedes first place for entertainment to TMZ.com (also owned by Time Warner), which excels at it. But People.com is able to charge advertisers a premium, points out John Squires, executive vice-president of Time Inc, because of the quality of its brand. And surfers are highly engaged with *People* online: in June each visitor to the site looked at an average of 85 pages, compared with 13 for TMZ.com. In financial terms, says Mr Squires, People.com would now rank among the firm's most profitable monthly magazines.

The internet still brings magazine companies a fraction of what they earn in print. Publishers have found that websites are good at winning and keeping subscribers, but few pay their own way. If Emap closed down all its magazine sites tomorrow, says a publishing executive, the company would make more money. Even though magazine firms have built attractive sites, says Andreas von Buchwaldt of OC&C Strategy Consultants in Hamburg, huge independent communities on the internet have often already formed, and it is hard for magazine brands to achieve leading positions. In six countries in Europe including France and Germany, for instance, an internet-only brand, auFeminin.com, dominates the women's category.

Before the credit crunch, observers expected some or all of Emap to go to private equity. Now publishing firms are perhaps better placed to win. It is possible that no one will pay a good price for consumer magazines at the moment. That would add to the industry's gloom. But it might also encourage media conglomerates to stick at magazines and have a proper go at revamping them for the digital age.

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Face value

Changing how Japan works

Sep 27th 2007
From The Economist print edition

Pasona Group

Yasuyuki Nambu of Pasona is on a mission to make Japan's labour market more flexible

Get article background

WHEN Yasuyuki Nambu was an engineering student preparing to graduate from university in 1976, he was struck by the injustices of Japan's workplace. Men were far more likely to be hired than women and were paid much more for the same work. Women who left their jobs to start a family found returning to work almost impossible. Mr Nambu had the idea of creating a non-profit organisation to place women in flexible, part-time jobs. His father suggested turning this job-placement scheme into a commercial venture. The result was Pasona, a firm that now has annual revenues of around $2 billion and which sends around a quarter of a million people off to a job every day. Japan has thousands of temporary-staffing agencies today, but Mr Nambu's was the first, and is still one of the biggest. Mr Nambu has helped to change the way Japan works.

Before Pasona, job placements were handled by a government agency and offered little more than empty, make-work employment. Moreover, part-time and temporary employees were treated as outcasts from Japan's corporate-welfare model, founded on the principles of lifetime employment and seniority-based wages that depend on length of service, not performance. Under this model, privileged “regular” workers enjoyed benefits such as training and the use of company holiday-resorts, and were even reimbursed for the cost of travelling to and from work. In return, they were expected to remain loyal to their employers. All this was denied to “non-regular” or temporary workers, who were also paid much less.

In the 30 years since Mr Nambu set up shop, non-regular employees have gone from the periphery of the Japanese labour force to the mainstream. The trend got a big push during the economic downturn in the 1990s, when big companies retained staff but changed their status to non-regular workers and hired temps whenever openings emerged. And a generational backlash against the stereotypical “salaryman”, or white-collar worker, created a new group of young people, known as “freeters” (a combination of “free” and *Arbeiter*, the German word for worker), who drifted from job to job. As a result, the number of non-regular workers has increased from around 20% of the labour force in 1990 to one-third of all workers today.

The result is a two-tier labour market, with huge differences in pay and benefits between regular and non-regular workers, even if they are doing the same jobs. But rather than being a manifestation of the problems bedevilling Japan's economy, Mr Nambu believes, freeters are a solution to its ills. They provide flexibility that is beneficial to both employees and employers, he says. As for concerns about growing

inequality, the best way to address them is to extend some of the benefits offered to regular workers to freeters, too. Pasona has gone about this in several ways. It has worked to increase the pay of temporary staff, initially by reducing its own margins. It has promoted individual retirement-savings accounts, akin to American 401(k) plans, even before they were enshrined in Japanese law. And it has pushed employers to reimburse non-regular workers' transport costs.

For Mr Nambu, Pasona's mission transcends the workplace. “We want to provide solutions to society's problems,” he explains. He even refers to his top managers as a “shadow cabinet” on the basis they, rather than the government, are in a position to remedy many of Japan's pressing issues—from the declining birth rate to revitalising rural areas—by establishing a more flexible labour market. The private sector, not government, ought to lead this transformation, he says. Such outspokenness has prompted criticism from the establishment. Mr Nambu's flashy ways do not go down well in traditional, buttoned-up Japan. He is as famous for cycling to work in bright red shorts as he is for his forthright views, which he trumpets on his personal website—also unusual in a Japanese boss. Although businesses privately support him, because temporary employees suit their interests, government officials worry that he is undermining traditional Japanese labour practices that, they believe, serve the country well by maintaining loyalty and equality. They would prefer to return to a world in which regular employment is the norm.

Freeter, choose your own destiny

Mr Nambu regards this as sentimentality that is out of place in the modern, global economy. The post-war period was a time when people had no alternatives: “Be a regular worker—and exploited for the rest of your life,” he explains. Rather than undermining Japan's social ties between employee and company, he says, he is empowering workers by giving them more choice and flexibility. At a youthful 55 years, Mr Nambu has expounded this viewpoint in a dozen books about business practices and workforce trends. And it has guided his own life. A freeter himself before the term was coined, he juggled odd jobs at a department store and a school while laying the foundations for his firm.

Pasona has expanded into other areas of workforce services. Some 40 subsidiaries handle outsourcing projects, recruitment of full-time staff, outplacement support to help redundant staff find new jobs, technical support, finding temporary jobs for the retired, and managing benefits schemes for other firms. Pasona has also expanded into other Asian countries and America. (It has around 4,000 staff, 75% of whom are regular employees.)

When *The Economist* last caught up with Mr Nambu in 1996, his office was adorned with photos of himself alongside such dignitaries as Bill Clinton, Prince Charles and Ronald Reagan—but no Japanese politicians, a sign of his status as an outsider in his own country. In the decade since, Pasona's revenues and temporary workforce have both more than doubled, yet Mr Nambu remains as controversial as ever. “The concerns I had 30 years ago, I solved by creating the human-resources department of Japan, Inc,” he says. But the battle continues.

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China's economy

How fit is the panda?

Sep 27th 2007 | BEIJING
From The Economist print edition

Illustration by Bill Butcher

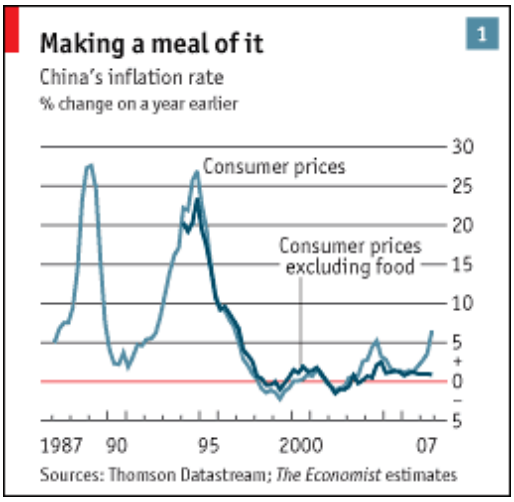
China's booming economy is helping to support global growth as America turns sickly. So now it has to keep up the pace

Get article background

NO COUNTRY in history has sustained such a blistering rate of growth over three decades as China. Its economy grew by a staggering 11.9% in the year to the second quarter. Since 1978 it has grown by an average of almost 10% a year—more than Japan or the Asian tigers achieved over similar periods when their economies took off. But eventually every sprinter trips. Japan's growth averaged 9.5% in the two decades to 1970, but slowed to 4.7% in the 1970s and to only 1% by the 1990s.

As China has grown, it has come to matter much more to the rest of the world. For the first time it is now contributing more to global GDP growth (measured at market exchange rates) than the United States is. Yet, even as growth forecasts for China are being revised upwards, America is looking at a downturn caused by falling house prices, which threaten to clobber consumer spending. The fate of the world economy now hinges not just on America, but also on China's economic fitness continuing over at least the next two years.

So what immediate threats does China face? The biggest worry is that the economy is overheating and inflation surging out of control. In August consumer-price inflation jumped to 6.5%, up from 1.3% a year earlier and its highest for more than a decade. If China slams on the brakes, its economy could suffer a hard landing, as happened after past episodes of inflation.



But inflation is nowhere near previous danger levels in 1988 and 1994, when it soared above 25% (see chart 1). Moreover, the leap in inflation does not seem to be a symptom of overheating caused by excess demand, as it was in the past. It is due entirely to the rise in food prices caused by supply-side problems. Excluding food, inflation is only 0.9%. This does not mean that food is unimportant: it accounts for one-third of the inflation basket, and rising prices could trigger social unrest. But it is not something that China's central bank can easily fix by raising interest rates.

The bank has raised interest rates five times this year, but they still remain low relative to the country's growth rate.

Growing public concerns over inflation recently prompted Beijing to introduce a freeze until the end of 2007 on a wide range of government-controlled prices, such as oil, electricity and water. A more effective way to curb inflation would be to allow the Chinese currency to rise faster. This would reduce import prices of food and raw materials and also curb the build-up of liquidity as a result of rising foreign-exchange inflows.

Unless checked, excessive monetary growth combined with over-rapid GDP growth could eventually lead to more general inflationary pressures. In its latest "China Quarterly Update", the World Bank says that in the first half of 2007 China grew faster than its potential growth rate (currently estimated at around 10.5%) for the first time in a decade (see chart 2). However, excess demand is tiny compared with previous phases of overheating so the risk of soaring inflation causing a hard landing in the near future is remote.

Bubble trouble

A second much-talked-about threat is the bursting of China's stockmarket bubble. Share prices have risen by 400% in just over two years, and average price-earnings ratios based on historic profits are around 50 (based on forecast 2008 profits they are a still-racy 30). Even though almost everyone reckons this is a bubble, history suggests that a bust is not imminent and that share prices could continue to rise for a lot longer: both Japan's Nikkei and America's NASDAQ saw p-e ratios well above 100 at their peaks.

Even if share prices did tumble this year, the impact on the economy would probably be relatively modest. The total value of tradable shares—that is, excluding those held by the government—is only 35% of GDP compared with 180% in America at its peak in 2000. Equities account for less than 20% of Chinese households' total financial assets, compared with half in America, so price swings have less impact on spending. When Chinese share prices collapsed by 55% from 2001 to 2005, GDP growth remained robust. Over the past year there has been little sign that people are saving less and spending their capital gains, so a slump in share prices should not have much impact either.

Share prices can also affect the cost of capital. But only a small proportion of Chinese companies are listed on the stock exchange and those that are rely mainly on internal finance. Only 10% of total financing for investment this year has come from equities. A more serious problem is that because firms have invested in other companies' stocks, a slump in share prices could directly hurt their profits and hence their investment. According to a study by Morgan Stanley, one-third of listed companies' profits in the first half of 2007 came from share-price gains and other investment income. If share prices sink, so will profits, which would make shares look even more overvalued.

Some analysts also worry that a sharp plunge in equity prices could seriously hurt banks' balance sheets, causing them to squeeze their lending. Chinese banks are officially not allowed to lend to investors to buy shares, but anecdotal evidence suggests that households and firms have taken out loans disguised as mortgages to buy shares. If so, the effect of the bubble bursting could be larger than the direct impact on consumers' wealth—especially if, as seems more likely, the bubble continues to swell for another couple of years before it finally bursts.

In many ways China today looks ominously similar to Japan before its bubble burst at the start of the 1990s, resulting in a decade of stagnation. Like Japan, China has high rates of saving and investment, low real interest rates, soaring asset prices, a big current-account surplus and upward pressure on its currency. After the Plaza accord between the big industrial countries in 1985, the Japanese yen rose by 80% against the dollar in three years.

Many in China have concluded that the blame for Japan's economic malaise in the 1990s lay largely with the appreciation of the yen. Beijing has therefore allowed the yuan to rise by only 10% since July 2005. But Japan's real mistake was its loose monetary policy to offset the impact of the rising yen—which further inflated the bubble—and then its failure to ease policy once the bust had happened. By holding down the value of the yuan and allowing a consequent build-up of excess liquidity, China risks repeating

the same error.

However, Paul Cavey, a China economist at Macquarie Securities, suggests that China may have more in common with Taiwan in the 1980s than with Japan. Taiwan's bubble was even bigger, with share prices rocketing by 1,800% between 1985 and 1990. In Japan, reserve accumulation did not play a big role in the bubble. By contrast, the foreign-exchange inflows into Taiwan were greater in relation to its GDP than those seen recently in China. Taiwan, like Japan, saw a big rise in its exchange rate, by 60% in the four years to 1989.

In 1990-91 the Taipei stockmarket slumped by 75%, even more than the Tokyo market did. But Taiwan's growth remained fairly strong because policy was eased much sooner than it was in Japan. In other words, contrary to Beijing's fears, a big exchange-rate rise does not inevitably lead to economic depression.

The other big difference between China and Japan in the late 1980s is that Japan had a serious property bubble against which banks had lent heavily. Although a house-price crash would have much nastier consequences for China's economy than a share-price crash, because 80% of China's urban households now own their home, there is no evidence of a nationwide housing bubble. Average house prices across China are rising at an annual rate of 8%, with double-digit gains in some cities, such as Shenzhen and Beijing.

In a developed economy such increases might seem a little bubbly, but not in one in which nominal GDP is growing at an annual pace of 15%. The ratio of house prices to average income has fallen by 25% in China since 1999. In contrast, at their peak last year American house prices had risen by 45% relative to incomes. A collapse in house prices therefore seems unlikely in China.

If America sneezes

If neither a surge in inflation nor a bust in asset prices seem likely to derail China's economy over the next year or two, what about a recession in America? Exports account for over 40% of China's GDP, so some economists predict that a fall in exports as a result of a downturn in America would create massive excess capacity and a sharp fall in profits and investment—the making of a nasty hard landing. But the popular notion that China is dependent on export-led growth is a myth; domestic demand is much more important. This year the increase in China's net exports (ie, less imports) is likely to account for about one quarter of its growth—a record amount. But even without this external boost, GDP growth would still have been a respectable 9%.

During America's 2001 recession, China's export growth fell by 25 percentage points, but imports also slowed sharply, so GDP growth (as officially reported) remained strong. Since then, the share of its exports to America has shrunk; the European Union and other emerging economies are now more important markets. In the three months to August, Chinese exports to America increased by 14% compared with a year earlier, whereas those to the EU grew by 40%.

America's slowdown so far largely reflects a collapse in house-building, but if consumers cut their spending, the impact on Chinese exports would be harsher. The World Bank estimates that if American consumption falls by the equivalent of 1% of GDP, this could knock 0.2-0.5 percentage points off China's GDP growth, depending on how much the Federal Reserve does to cushion the downturn.

A recession in America would reduce China's growth, but since Beijing's policy-makers are fretting that the economy is starting to overheat, weaker exports and hence slower GDP growth might be a good thing. Not only would it reduce the risk of inflation, but it would also help to trim China's embarrassing trade surplus.

If a fall in exports threatens to slow growth by more than desired, the government's strong fiscal position means that it has plenty of room to boost domestic demand by spending more on infrastructure, education or health. The budget was in small deficit in 2006, but may now be in surplus—even excluding the large surpluses of state-owned enterprises. China's public-sector debt is only 18% of GDP, much lower than the 75% average in developed economies, giving the government ample room for a fiscal stimulus.

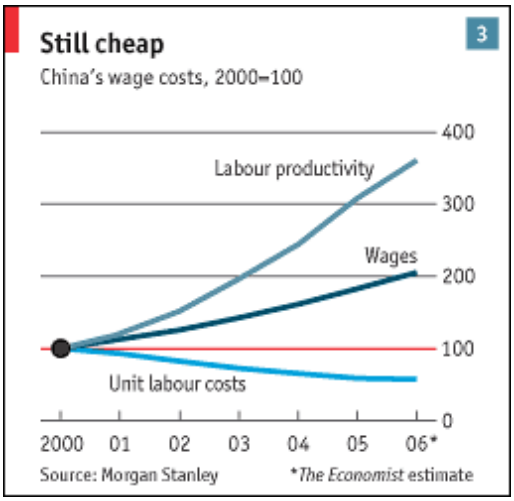
In the short term, therefore, an American downturn is more likely to cause sniffles in China than a heavy cold. Indeed, an American recession might be a blessing in disguise to China: if weaker exports forced the government to do more to boost domestic demand it would help to rebalance the economy and make growth more sustainable in the long run.

The bigger danger is that an American recession would inflame America's increasingly protectionist mood and make trade sanctions against China more likely. In an election year, politicians will need a scapegoat. But import barriers would do more harm to America's economy than China's. If China was forced to depend less on exports and more on consumption it would gain in the long run.

Running out of fuel?

In recent months there has been much talk about a new threat. China, it is claimed, is running short of cheap labour—the main source of its extraordinary growth. This is nonsense. It is true that average wages have risen by around 15% over the past year, but labour productivity in manufacturing has risen even faster. Indeed, wages have been rising at double-digit rates for a decade with no harmful impact on growth, because higher labour productivity has actually reduced wage costs (see chart 3). There are localised skill shortages, but it is hard to believe that China's labour surplus is exhausted when almost 60% of the population still lives in rural areas. The wide income gap between rural and urban areas will continue to attract workers from farms to factories.

In any case, it is not true that China's growth has been based primarily on cheap labour. Over the past decade, the increase in the labour force has contributed an average of only 1% a year, or one-tenth of its GDP growth. It is true that the population of working age will peak by 2015 and then start to shrink. But an analysis by the World Bank argues that China is unlikely to face a labour shortage for many years. The decline in the working-age population can be offset by making it easier for surplus labour to migrate into cities.



One thing China does not seem short of is capital investment. Indeed, some economists have long predicted that overinvestment as a result of an artificially cheap cost of capital will lead to China's downfall. Sooner or later, it is argued, overcapacity will lead to a plunge in capital spending, bringing the economy crashing to earth.

According to government figures, China's investment amounts to over 45% of GDP and is growing at 25% a year. But many economists reckon that is grossly overstated. For example, land purchases are wrongly counted as new investment when they are really just a transfer of ownership. If China were massively overinvesting, one would expect the return on capital to be falling. Instead, corporate profit margins have been rising. Mr Cavey estimates that average capacity utilisation, measured by the ratio of sales to assets, has been rising not falling—in strong contrast to Japan during its 1980s bubble.

Worries about rising excess capacity feed another long-standing concern that China's banks, groaning under the weight of non-performing loans, are heading for a crisis. Official figures show that non-performing loans had fallen to 7% of all loans early this year from almost 30% in 2001. But independent analysts suggest the true figure may be closer to 20% (down from over 50% at its peak). The fear is that an economic downturn and falling profits could lead to a surge in new bad loans.

China's fragile and inefficient banking system is certainly a drag on its economy, but the risk that a banking crisis could bring down the economy seems small. China has huge foreign-exchange reserves available to protect its banking system. Capital controls limit capital flight. And the government, unlike Japan's in the 1990s, has plenty of money if necessary to write off bad loans.

The list of potential threats to China's economy is long and some might shave a couple of percentage points off its growth rate (leaving it close to 10%). But none seems likely by itself to cause the economy to collapse in the next two years—ie, during the time when America's economy is likely to stumble. But what if several blows land at the same time? For example, an American recession breeds greater protectionism, global financial turmoil unnerves Chinese stockmarket investors, share prices collapse and a downturn creates social unrest. The overall impact on the economy would then be more painful.

China's best insurance against this is that its budget finances are in better shape than those of any other big economy. China's leaders are acutely aware of the risks of social unrest and they will be willing and able to try to spend their way out of trouble. That makes a sharp downturn in China less likely in the near future. But what about farther ahead?

China's economic success has been based on the essential ingredients of growth: high savings, openness to trade, good education and strong productivity growth. This means its long-term prospects remain strong, although its trend growth rate will inevitably slow as its economy matures and its labour force starts to shrink.

Tao Wang, Bank of America's economist in Beijing, says she is optimistic about China's economy in the short term and the long term, but thinks the medium term looks risky. There is a high chance of a sharp slowdown sometime within the next ten years. The problem with years of rapid growth is that it hides problems that are then painfully exposed when times are hard. But for the time being, the chances are that China can keep sprinting even if America takes to its sick bed. That is good news for the world.

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Private equity

A boom in bust-ups

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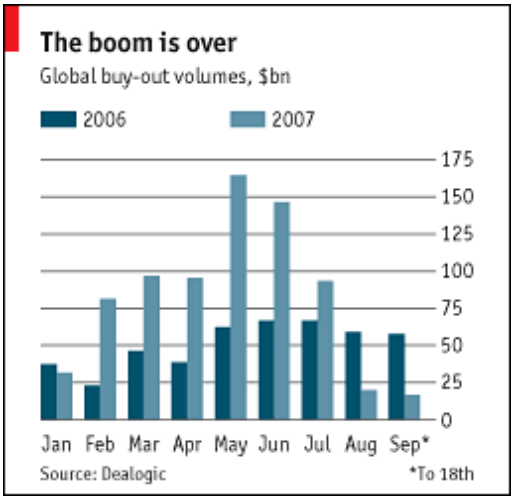
Illustration by David Simonds

As more deals turn ugly, buy-out firms rethink their approach to investing and their relations with backers

SCOURING today's soggy leveraged-buy-out landscape, it seems faintly ridiculous that as recently as June bankers were waiting with bated breath for the first $100 billion deal. In a matter of weeks the private-equity boom has been strangled, its oxygen—cheap debt—cut off by the credit crisis. Shares in Blackstone, which led the boom, languish some 20% below the price at which they were sold to the public in June. The volume of buy-outs has shrunk (see chart).

Shareholders of recent targets, suddenly fearful that offers will not materialise, have been rushing to approve transactions—just as buyers and their bankers get cold feet. Tempers are frayed at PHH, an American mortgage lender, after JPMorgan Chase and Lehman Brothers balked at financing its sale to Blackstone and General Electric. This pales next to the acrimony at Harman International, an American audio-equipment maker, where the erstwhile buyers, Kohlberg Kravis Roberts (KKR) and Goldman Sachs, insist they no longer have to honour the $8 billion deal.



Other takeovers may be heading the same way. The group buying SLM, owner of Sallie Mae, a student lender, has said it plans to withdraw its offer. The buy-out of Tribune, a newspaper group, looks wobbly too. Reflecting fears that others will follow Harman, “arb spreads”—the premium of the offer price over the actual price—for the two-dozen largest buy-out targets rose to over 7% this week.

The spat over Harman is a clear sign that some of the more egregious bubble-era buy-outs will end up in court or, worse, collapse. There is little hope of the deal's terms being renegotiated—as happened recently with Home Depot's supply unit—which suits the banks just fine. With the diminished appetite for leveraged loans, they face having to hold the debt themselves or sell it at a loss if the takeover is completed. Investors have just bought $5 billion-worth of loans to First Data, a transaction-processing firm, at a discount and with tougher terms.

For the buyers, aborting is not easy. The obvious route, short of paying a large break-up fee, is to invoke the “material adverse change” clause, which lets the buyer walk away if the target's financial health has declined sharply relative to that of its industry. But courts rarely allow this: no American deal of any size has been scuttled in this way for more than four years.

The bigger risk, however, is that buy-out funds end up with piles of capital that they cannot deploy, irritating investors who must pay management fees regardless of whether their money is put to work. When markets turn, deal droughts can last many months. In the downturn of 2000-02, for instance, Bain Capital went for over a year without completing a deal.

Investors in private-equity funds will certainly need to be patient. As dealmaking slows and exits become trickier, the firms will have to focus on improving the companies already in their portfolios. Carlyle's boss, David Rubenstein, told a recent private-equity conference that the average holding period is likely to rise to four to six years, far above today's levels. On the plus side, this may help to assuage public criticism of private equity's penchant for “quick flips”.

Targets are likely to be smaller as well as fewer in coming months. The head of a Wall Street investment bank says it is hard to imagine deals much bigger than $10 billion well into next year. That may tempt the big private-equity groups into the middle market, which they haughtily ignored when mega-deals were easy. There has been less of a let-up in sub-$1 billion dealmaking, notes Newcomb Stillwell of Ropes & Gray, a law firm.

Meanwhile, there is likely to be emphasis on “growth equity”—investments in firms at an earlier stage of the development cycle than the classic turnaround case. Firms like Blackstone and Cerberus can also point to strong restructuring practices and a keen eye for distressed assets. Some of the best opportunities are to be had when debt markets seize up. Witness the fortunes made by vulture investors in the months after the collapse of Enron. With rating agencies predicting a rise in corporate defaults, some repair work may be needed on firms already in private-equity hands. Much of the debt is floating-rate and linked to interbank rates that remain elevated (see article).

Private equity is also in more places around the world than it was in the last downturn. Then, the American firms had little foreign presence outside London. Now they are represented—and starting to do deals—in India, China and other promising emerging markets.

There is no sign that institutional investors are losing their ardour for the industry. A survey of pension-fund managers by Citigroup, published this week, found that 85% of them plan to raise their allocation to “alternative” assets over the next three years, despite the market turmoil. Private equity is expected to overtake property and hedge funds as the most popular investment in that category. Investors may, however, start to ask harder questions about their cut of the profits, especially in light of a recent report by two academics at the University of Pennsylvania. This found that the typical buy-out fund takes almost twice as much from its investors in management fees as it makes in gains in the value of its holdings.

Add this to the squabbles over recent deals and it is clear that private equity's kings face a less regal future. So why were they sounding so upbeat at last week's conference? Perhaps their change in fortune has yet to sink in. Perhaps for the time being they can make a handsome living from all those management fees—though that cannot go on forever: eventually, they will have to earn some returns. Either way, as the Wall Street boss remarks: “They had a wonderful ride, so please don't feel sorry for them.” Perish the thought.

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Buttonwood

Action replay

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Was the script for the recent turmoil written in 1998, 1990, or is it new?

LIKE generals condemned to fight the last war, investors seem fated to hark back to the last financial crisis. When markets plunged on “Black Monday” in October 1987, people feared a repeat of the Wall Street crash of 1929. Central banks cut interest rates in part because they wanted to avoid a re-run of the 1930s' depression.

But the world has suffered a lot of financial crises and it is not always clear which one to use as a benchmark. Take the central banks' responses to the recent problems in the credit markets. Do they suggest that we are looking at a repeat of 1998, when Long-Term Capital Management, a hedge fund, wobbled, or at 1990, when there was a financial crisis at savings-and-loans banks, then the main providers of American mortgages?

As David Bowers of Absolute Strategy Research points out, it makes an enormous difference which crisis (if either) is being replayed. In 1998 rate cuts quickly restored the animal spirits of investors and the dotcom bubble followed. If that pattern is to be repeated, investors should be piling into growth-sensitive sectors like emerging markets and commodities.

But in 1990 several rate cuts failed to stop the American economy from sliding into recession. That may be what happens once again now, especially as most observers believe it takes 12-18 months for changes in interest rates to have much economic effect. Figures released on September 25th showed that the inventory of unsold American homes is at its highest level since 1989. If we are following the 1990 script, then investors should be opting for the safety of Treasury bonds.

The strength of the world's stockmarkets since the Federal Reserve cut rates on September 18th indicates that most investors are, to misquote Prince, “partying like it's 1998”. The MSCI emerging-markets index reached a record high on September 24th, and the best-performing industries in share-price terms over the past month have been economically sensitive ones, such as mining and chemicals.

Ajay Kapur of the hedge fund First Horse Capital says that America's stockmarket normally returns 7.2% over the six months after the first rate cut in the cycle, even in periods when the economy is slipping into recession. When a downturn is avoided, the average six-monthly gain is 20.1%. Mr Kapur says the world is dominated by “fiat currency democracies” in which governments and central banks tend to give in to popular pressure and “print money” to avoid hard times. He believes the recent actions of the Fed, the European Central Bank and the Bank of England endorse his view.

Those bears who believe the drama is more likely to resemble 1990 than 1998 base their case on what they think are excessive levels of consumer debt. Clearly, many of them were far too early in predicting a debt-driven crisis; Peter Warburton's jeremiad “Debt and Delusion”, for example, was published back in 1999.

But they have a point now. As economies become more sophisticated, it may make sense for consumers to take on more debt as a means of smoothing their consumption over their lifetimes. Indeed, this should add to economic stability. Ironically, however, greater stability only encourages consumers to take on more debt since they are less fearful of losing their jobs in recessions.

Consumer debt cannot keep growing faster than income forever. That evil day has been delayed, over the past 20 years, by the downward trend in interest rates. But the bears think the crunch has now arrived, as it did in Japan in the 1990s.

The world may not have to wait too long to see whether they are right. As David Rosenberg, an economist at Merrill Lynch, recalls, the stockmarket rallied in response to a half-percentage-point rate cut in early January 2001. But by the time the Fed lowered rates again at the end of that month, its move was seen

by investors as a sign of desperation.

Three months ago Buttonwood pointed to three portents that would suggest investors should prepare for the worst. One of those, higher credit spreads, has indeed appeared. Another was a resurgence of inflation. Although that looks unlikely in the short term, especially if economies weaken, the long-term chances of higher inflation must surely have gone up. Gold is at its highest level since it last peaked in 1980.

The final sign was a burst of yen strength (which would indicate an unwinding of speculative bets). The yen has risen against the dollar since June but there has been no sharp lurch higher; perhaps because the Japanese economy is itself weak. But if the gloomsters are to be proven right, we must surely see some turmoil in the currency markets first.

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Credit markets

Still gloomy

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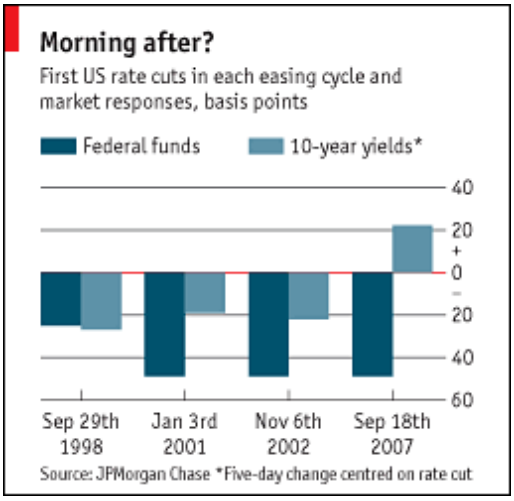
Debt markets threaten to undermine the Fed's goal of restoring order



WAS that it then? From a shareholder's standpoint, it certainly looked as if the Federal Reserve had administered a miracle cure to stockmarkets with its spoonful of easy money on September 18th. Bankers began to talk of the worst being over and done with. In the debt markets, however, a more jaundiced view prevails. Lingering pessimism—in overnight money markets right along the yield curve to long-term bonds—is likely to make the Fed's task harder as it seeks to revive the economy.

For one thing, the reaction of America's bond market to the interest-rate cut was different from previous rate-cutting cycles (see chart). Instead of falling, as they have in the recent past, ten-year bond yields rose, as investors fretted that the Fed's largesse would stoke inflation. In America and the euro zone yields came off their highs on September 25th, when weak economic data eased inflationary concerns. But economists polled by Bloomberg still expect ten-year yields in America to remain above their levels before the rate cut.

That does not bode well for American mortgage rates, which tend to rise along with long-term Treasury-bond yields. Indeed, the price of a 30-year fixed-rate mortgage has risen by seven basis points since last week, according to bankrate.com, a personal-finance website. That raises concerns about how little the Fed's rate cuts may help the housing market.

Elsewhere, banks continue to find it hard to get funding from other banks over short time-periods, because of their over-stretched balance sheets as a result of America's subprime mortgage crisis. The London Interbank-Offered Rate (LIBOR) in dollars, euros and sterling at overnight and three-month maturities remains higher than normal. Even future rates do not indicate much hope of improvement. Last week, LIBOR traders expected sterling rates to fall to 5.96% by the year-end from 6.35% today. Now traders still expect a drop, but only to around 6.16%.

Like the ten-year yields in America, higher LIBOR rates affect mortgage rates in Britain. Although mortgages are linked to the Bank of England's official rate, which has not changed since July, high-street banks partly fund their loans using LIBOR. If the rate moves up, or does not fall as much as expected, banks are likely to pass on the cost to mortgage borrowers.

Companies, too, are likely to be affected. Corporate-bond markets have re-opened since the Fed cut rates. But given the reluctance of banks to lend, those firms that need ready cash in short-term markets such as commercial paper are likely to feel the squeeze. “Those companies who last rolled over their short-term debt in July are likely to be in for a rude shock when they try to do so again in December,” says John Wraith of the Royal Bank of Scotland. Prepare for a long convalescence.

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The dollar

Slip-sliding away

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How low will the greenback fall?

Get article background

WHEN does a gentle slide become a dangerous skid? That is the big question as the dollar's decline gathers pace. The greenback fell almost 2% against a basket of major currencies in the week after the Federal Reserve cut America's short-term interest rates on September 18th, hitting a new low for the post-1973 floating era. The fall was particularly pronounced against the euro, where the dollar fell to a record $1.41 per euro on September 25th.

Those nervously inclined see plenty of reason to fret. Some worry that central banks and other official investors may be about to dump dollars. Saudi Arabia's decision not to follow the Fed's lead and cut interest rates fuelled speculation this week that the oil kingdom was about to break its 21-year peg with the greenback. Others fear that a plunging dollar will fuel inflationary pressure in America and thus limit the Fed's ability to cut interest rates further. In Europe there are worries that a stratospheric euro will imperil the region's growth. Nicolas Sarkozy, France's president, recently declared that the currency's rise above $1.40 was a “problem” for euro-zone competitiveness.

Some of this nervousness is exaggerated. With inflation rising fast in Saudi Arabia, the link to a falling dollar is causing a growing headache. A revaluation against the dollar or, better, a link to a basket of currencies—similar to the one Kuwait now has—would make more sense. But the Saudi government has denied that it plans anything of the sort. Its central-bank governor repeated a commitment to the dollar peg on September 26th. More important, a change in Saudi Arabia's currency regime—or that of other oil exporters—need not cause a dollar crash. Shifting to a currency peg does not mean a central bank would suddenly dump its dollar assets.

The inflationary risks from a weaker dollar are also easily overdone. Most economists reckon that the pass-through from a weaker dollar to higher import prices has weakened in recent years, and is particularly low in America. A new study by Robert Vigfusson, Nathan Sheets and Joseph Gagnon, three economists at the Federal Reserve, suggests that countries are more willing to absorb a rising exchange rate in their profit margins when exporting to America than when they export elsewhere, perhaps because they are keen to protect their share of America's huge market. Such a profit squeeze cannot continue indefinitely, of course, but as yet there is little sign that the dollar's weakness is aggravating price pressure.

For the moment, the dollar's decline is reflecting investors' expectations of Fed policy rather than tying the central bankers' hands. Financial markets increased the odds of more short-term interest-rate cuts this week after a barrage of grim economic news. The pace of home sales fell again in August; the backlog of unsold existing homes rose to ten-months' worth of supply; and consumer confidence plunged. As the gloomy economic news piled up, yields on ten-year Treasury bonds, which had risen on inflation jitters after the Fed's rate-cut, fell back.

Today's pessimism is centred on America—hence the tumbling dollar. But there may soon be reasons to worry about Europe. Germany's Ifo index of business confidence fell again this week for the fourth consecutive month, to a 19-month low. The aftershocks of the credit crisis coupled with a surging euro could make life difficult for Europe's firms.

So far, the European Central Bank has played down these risks and is signalling the likelihood of higher rates ahead. That hawkishness is part of the reason for the euro's rise. But if America's economy is truly in trouble, the outlook for the euro zone will darken too. America's currency will become others' problem.

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Sovereign-wealth funds

The new Rothschilds

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State-run funds are pumping money into the financial sector

WHEN credit is tight, cash is a powerful weapon. No one is better armed than sovereign-wealth funds, a loose term to describe state-run investment pools, which have an estimated $2 trillion-3 trillion under management and are playing an increasingly muscular—and controversial—role in cross-border investment.

Middle Eastern money has been particularly active. Witness the Byzantine struggle between Borse Dubai, a firm backed by the emirate's government, and the Qatar Investment Authority, for the title of the Middle East's financial hub. They have both built big stakes in OMX, a Nordic exchange operator, and the London Stock Exchange. Borse Dubai, meanwhile, hopes to get a 20% holding in NASDAQ, an American exchange.

Exchanges are not the only parts of the financial-services industry to be coveted. Morgan Stanley reckons that sovereign-wealth funds have spent $35 billion since the start of last year on strategic stakes in financial organisations, with $26 billion coming in the last six months alone. HSBC, Standard Chartered and Barclays are among the big banks to have attracted their capital recently. Private-equity firms have also been favoured destinations: China's sovereign-wealth fund shelled out $3 billion for a stake in Blackstone this year and Carlyle Group announced the sale of a 7.5% stake to an Abu Dhabi fund for $1.35 billion on September 20th.

According to Huw van Steenis of Morgan Stanley, the financial sector is attractive to sovereign-wealth funds for a number of reasons. One is simply the size and liquidity of many financial shares. With so much money to invest and such close political scrutiny of their activities, funds are drawn to investment opportunities that can swallow their cash without giving them too hefty a stake. Investment in overseas firms helps funds to import expertise back home: as part of the OMX deal, for example, the Dubai exchange gets access to new technology. The financial sector is also one of the prime beneficiaries of growth in emerging markets.

As in other industries, politics is the biggest barrier, thanks to widespread misgivings about the ultimate intentions of foreign governments. The prospect of Borse Dubai owning a 20% stake in NASDAQ, even though the emirate will have just 5% of the voting rights, has provoked rumblings from some tub-thumping American politicians. The sale will be investigated by America's Treasury. Some sovereign-wealth funds are undoubtedly murkier than others, but worries that state-run investors are investing for political gain are probably overcooked. Institutions such as banks operate in regulated markets where mechanisms exist to prevent abuse by investors. Sovereign-wealth funds are not as unaccountable as they appear: there has been plenty of criticism in China of the Blackstone investment, the value of which has declined dramatically. And the targets for investment are willing. As financing conditions get tougher and banks seek to build their businesses in Asia and the Middle East, there may be worse shareholders to have than cash-rich emerging-market governments.

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Japan Post

Pushing the envelope

Sep 27th 2007 | TOKYO
From The Economist print edition

Privatising the world's biggest bank will not be easy

Alamy

Soon to be a cash machine

Get article background

IF THE ground trembles this week in Marunouchi, the financial district of Tokyo, it may not be an earthquake but the massive shock of the break-up of Japan Post. On October 1st the ten-year process of privatising the postal system begins, with huge financial implications. It is the world's largest bank, with almost $2 trillion in assets. Its deposits represent a quarter of Japan's total household savings; its insurance arm accounts for 40% of the country's life-insurance policies.

Once the privatised bank and life-insurance firm compete in the market, those funds will be launched into uncharted waters. Until now, they have been mostly sheltered in Japanese government bonds and other low-risk investments. Japan Post, which has been a piggy bank for politicians, rarely made loans or risked its customers' money. Its capital-adequacy ratio, a measure of its risk intolerance, is 54%; at other commercial banks it is around 10%.

In the first phase of the privatisation, Japan Post will be split into four: a savings bank (Yucho Bank), an insurance company (Kampo Life), a postal-delivery firm and a post-office management company. The government will remain in control via a holding company until 2017 at the latest, when full independence comes. Yucho and Kampo may list on the Tokyo Stock Exchange as soon as 2009. Yucho alone would have a market value of between ¥4 trillion ($35 billion) and ¥10 trillion, estimates Hironari Nozaki of Nikko Citigroup, an investment bank.

Even before privatisation, its private-sector rivals have been bracing for trouble. They worry that the new arrivals will enjoy unfair tax and regulatory treatment; for example, Yucho, which is considered far too big to fail, might find itself more attractive to depositors as a result. Foreign firms, meanwhile, worry about their ability to sell products to Japanese investors through Yucho—a matter raised by America's trade representative.

Yet the biggest concern is over competence. Yucho and Kampo plan to enter higher-yielding lines of business such as housing loans and new types of insurance, but the civil servants who work there have little experience in evaluating risk. “They need a kind of culture change—it will take some time to get accustomed to the market,” notes Heizo Takenaka, a minister in charge of privatising Japan Post in 2004-06, now at Tokyo's Keio University.

Amelia Porges of Sidley Austin, a law firm in Washington, DC, believes it is essential that Japan's Financial Services Agency (FSA) and Postal Privatisation Commission monitor the new businesses to ensure fairness to competitors and the safety of the financial system. “These entities are so huge that if they crash, the impact will be felt worldwide,” she says. As a precaution the FSA recently set up a new section to oversee Yucho and Kampo.

Already, its competitors are gearing up to compete. Yucho's main selling point has been slightly higher interest rates on deposits than commercial banks (to encourage citizens to place savings there) and the vast network of nearly 25,000 post offices. These advantages are over. The offices are now owned by a separate firm that will partner with multiple banks. Commercial banks have also increased their business hours and improved their customer service in anticipation of their new rival. A little competition goes a long way.

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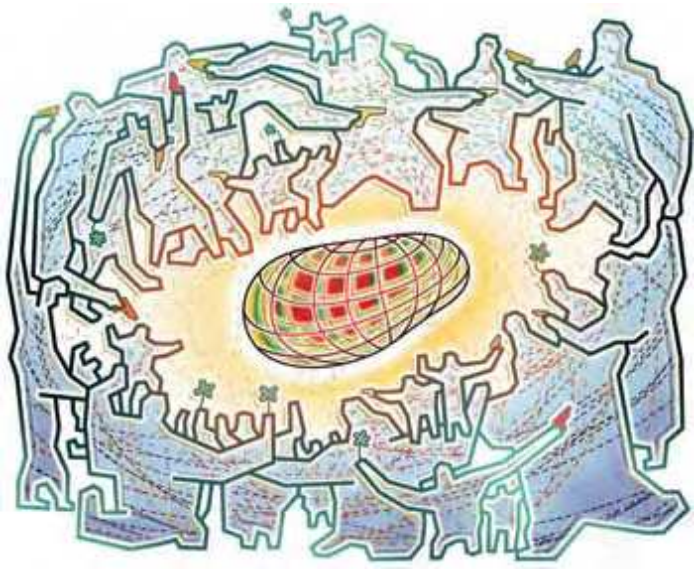
Economics focus

Playing games with the planet

Sep 27th 2007
From The Economist print edition

JAC



A version of the "prisoner's dilemma" may suggest ways to break through the Kyoto impasse

Get article background

AT ANY given summit on climate change, it is never long before some politician declares how "urgent" or "vital" or "imperative" it is to stop the planet from overheating. And yet few governments are willing to tackle the problem by themselves. In practice, what these impassioned speakers usually mean is that it is urgent—no, vital!—no, imperative!—for all countries but their own to get to grips with climate change.

That is natural enough. After all, all countries will enjoy the benefits of a stable climate whether they have helped to bring it about or not. So a government that can persuade others to cut their greenhouse-gas emissions without doing so itself gets the best of both worlds: it avoids all the expense and self-denial involved, and yet still escapes catastrophe. The most obvious free-riders of this sort are America and Australia, the only rich countries that refuse to put a limit on their emissions. But they are far from being the only offenders: most poor countries, too, are keen to palm the responsibility for curbing global warming off on rich ones, and to continue to grow and pollute as much as they like.

The problem, of course, is that if everyone is counting on others to act, no one will, and the consequences could be much worse than if everyone had simply done their bit to begin with. Game theorists call a simplified version of this scenario the "prisoner's dilemma". In it, two prisoners accused of the same crime find themselves in separate cells, unable to communicate. Their jailers try to persuade them to implicate one another. If neither goes along with the guards, they will both receive a sentence of just one year. If one accepts the deal and the other keeps quiet, then the turncoat goes free while the patsy gets ten years. And if they both denounce one another, they both get five years.

If the first prisoner is planning to keep quiet, then the second has an incentive to denounce him, and so get off scot-free rather than spend a year in prison. If the first prisoner were planning to betray the second, then the second would still be better off pointing the finger, and so receive a five-year sentence instead of a ten-year one. In other words, a rational, self-interested person would always betray his fellow prisoner. Yet that leaves them both mouldering in jail for five years, when they could have cut their sentences to a year if they had both kept quiet.

Pessimistic souls assume that the international response to climate change will go the way of the prisoner's dilemma. Rational leaders will always neglect the problem, on the grounds that others will

either solve it, allowing their country to become a free-rider, or let it fester, making it a doomed cause anyway. So the world is condemned to a slow roasting, even though global warming could be averted if everyone co-operated.

Yet in a recent paper, Michael Liebreich, of New Energy Finance, a research firm, draws on game theory to reach the opposite conclusion. The dynamics of the prisoner's dilemma, he points out, change dramatically if participants know that they will be playing the game more than once. In that case, they have an incentive to co-operate, in order to avoid being punished for their misconduct by their opponent in subsequent rounds.

The paper cites a study on the subject by an American academic, Robert Axelrod, which argues that the most successful strategy when the game is repeated has three elements: first, players should start out by co-operating; second, they should deter betrayals by punishing the transgressor in the next round; and third, they should not bear grudges but instead should start co-operating with treacherous players again after meting out the appropriate punishment. The result of this strategy can be sustained co-operation rather than a cycle of recrimination.

Mr Liebreich believes that all this holds lessons for the world's climate negotiators. Treaties on climate change, after all, are not one-offs. Indeed, the United Nations is even now trying to get its members to negotiate a successor to its existing treaty, the Kyoto Protocol, which expires in 2012. Many fear that the effort will collapse unless the laggards can be persuaded to join in. But the paper argues that rational countries will not be deterred by free-riders. They will continue to curb their emissions, while devising sanctions for those who do not.

Under lock and Kyoto

The Kyoto Protocol already embodies some of these elements. Countries that do not meet their commitments, for example, are supposed to be punished with a requirement to cut their emissions more sharply the next time around. But Mr Liebreich argues that there should also be sanctions for rich countries that refuse to participate, and stronger incentives for poor countries (which are exempted from any mandatory cuts) to join in. Rather than trying to craft an agreement that is agreeable to all, the more enthusiastic countries should simply press on with a system to which recalcitrant ones could later accede.

The global regime on climate change, Mr Liebreich believes, should also be revised more frequently, to allow the game to play itself out more quickly. So instead of stipulating big reductions in emissions, to be implemented over five years, as in Kyoto, negotiators might consider adopting annual targets. That way, co-operative governments know that they cannot be taken advantage of for long, whereas free-riders can be punished and penitents brought back into the fold more quickly.

There are flaws in the analogy, of course. In the real world, governments can communicate and form alliances, which makes the dynamics of the game much more complicated. And governments may not act consistently or rationally. Most observers, for example, assume that America's policy on global warming will change in 2008, along with its president. And most countries' willingness to act is presumably linked to the severity of global warming's ill effects. If things get bad enough, then with any luck everyone will play the game.

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Correction: Fannie Mae and Freddie Mac

Sep 27th 2007
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The authorised limit for mortgages purchased by Fannie Mae and Freddie Mac rose to today's level of $417,000 in 2006. It was not increased this year as we said on September 13th (see article). Sorry.

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Advanced biofuels

Ethanol, schmethanol

Sep 27th 2007 | EMERYVILLE, REDWOOD CITY AND SAN CARLOS, CALIFORNIA
From The Economist print edition

Everyone seems to think that ethanol is a good way to make cars greener. Everyone is wrong

Illustration by Stephen Jeffrey

Get article background

SOMETIMES you do things simply because you know how to. People have known how to make ethanol since the dawn of civilisation, if not before. Take some sugary liquid. Add yeast. Wait. They have also known for a thousand years how to get that ethanol out of the formerly sugary liquid and into a more or less pure form. You heat it up, catch the vapour that emanates, and cool that vapour down until it liquefies.

The result burns. And when Henry Ford was experimenting with car engines a century ago, he tried ethanol out as a fuel. But he rejected it—and for good reason. The amount of heat you get from burning a litre of ethanol is a third less than that from a litre of petrol. What is more, it absorbs water from the atmosphere. Unless it is mixed with some other fuel, such as petrol, the result is corrosion that can wreck an engine's seals in a couple of years. So why is ethanol suddenly back in fashion? That is the question many biotechnologists in America have recently asked themselves.

The obvious answer is that, being derived from plants, ethanol is “green”. The carbon dioxide produced by burning it was recently in the atmosphere. Putting that CO_2 back into the air can therefore have no adverse effect on the climate. But although that is true, the real reason ethanol has become the preferred green substitute for petrol is that people know how to make it—that, and the subsidies now available to America's maize farmers to produce the necessary feedstock. Yet such things do not stop ethanol from being a lousy fuel. To solve that, the biotechnologists argue, you need to make a better fuel that is equally green. Which is what they are trying to do.

Designer petrol

The first step on the road has been butanol. This is also a type of alcohol that can be made by fermenting sugar (though the fermentation is done by a species of bacterium rather than by yeast), and it has some advantages over ethanol. It has more carbon atoms in its molecules (four, instead of two), which means more energy per litre—though it is still only 85% as rich as petrol. It also has a lower tendency to absorb water from the atmosphere.

A joint venture between DuPont, a large American chemical company, and BP, a British energy firm, has worked out how to industrialise the process of making biobutanol, as the chemical is commonly known when it is the product of fermentation. Although BP plans to start selling the stuff in the next few weeks (mixed with petrol, to start with), the truth is that butanol is not all that much better than ethanol. The interesting activity is elsewhere.

One route might be to go for yet-larger (and thus energy-richer) alcohol molecules. Any simple alcohol is composed of a number of carbon and hydrogen atoms (like a hydrocarbon such as petrol) together with a single oxygen atom. In practice, this game of topping up the carbon content to make a better fuel stops with octanol (eight carbon atoms) as anything bigger tends to freeze at temperatures that might be encountered in winter. But living things are familiar with alcohols. Their enzymes are geared up to cope with them. This makes the biotechnologists' task that much easier.

The idea of engineering enzymes to make octanol was what first brought Codexis, a small biotechnology firm based in Redwood City, California, into the field. Codexis's technology works with pharmaceutical precision—indeed, one of its main commercial products is the enzyme system for making the chemical precursor to Lipitor, a cholesterol-lowering drug that is marketed by Pfizer. Codexis controls most of the important patents for what is known as molecular evolution. This designs enzymes in the way that normal evolution designs organisms. It creates lots of variations on a theme, throws away the ones it does not want, and shuffles the rest in a process akin to sex. It then repeats the process on the survivors until something useful emerges—though, unlike natural evolution, there is a bit of intelligent design in the process, too. The result, according to Codexis's boss, Alan Shaw, is enzymes that can perform chemical transformations unknown in nature.

Dr Shaw, however, is no longer so interested in octanol as a biofuel. Like two other, nearby firms, he is now focusing Codexis's attention on molecules even more chemically similar to petrol. The twist that Codexis brings is that unlike petrol, of which each batch from the refinery is chemically different from the others (because the crude oil from which it is derived is an arbitrary mixture of hydrocarbon molecules), biopetrol could be turned out exactly the same, again and again, and thus designed to have the optimal mixture of properties required of a motor fuel.

Exactly which molecules Codexis is most interested in these days, Dr Shaw is not yet willing to say. But Amyris Biotechnologies, which is also based in California, in Emeryville, and which also started by dabbling in drugs (in its case an antimalarial medicine called artemisinin), is slightly more forthcoming. Under the guidance of its founder Jay Keasling, it has been working on a type of isoprenoid (a class of chemicals that include rubber).

Unlike Codexis, which deals in purified enzymes, Amyris employs a technique called synthetic biology, which turns living organisms into chemical reactors by assembling novel biochemical pathways within them. Dr Keasling and his colleagues scour the world for suitable enzymes, tweak them to make them work better, then sew the genes for the tweaked enzymes into a bacterium that thus turns out the desired product. That was how they produced artemisinin, which is also an isoprenoid.

Isoprenoids have the advantage that, like alcohols, they are part of the natural biochemistry of many organisms. Enzymes to handle them are thus easy to come by. They have the additional advantage that some are pure hydrocarbons, like petrol. With a little judicious searching, Amyris thinks it has come up with isoprenoids that have the right characteristics to substitute for petrol.

The third Californian firm in the business, LS9 of San Carlos, is cutting to the chase. If petrol is what is wanted, petrol is what will be delivered. And diesel, too, although in this case the product is actually biodiesel, which is in some ways superior to the petroleum-based stuff.

LS9 also uses synthetic biology, but it has concentrated on controlling the pathways that make fatty acids. Like alcohols, fatty acids are molecules that have lots of hydrogen and carbon atoms, and a small amount of oxygen (in their case two oxygen atoms, rather than one). Plant oils consist of fatty acids combined with glycerol—and these fatty acids (for example, those from palm oil) are the main raw material for the biodiesel already sold today.

LS9 has used its technology to turn microbes into factories for fatty acids containing between eight and 20 carbon atoms—the optimal number for biodiesel. But it also plans to make what it calls “biocrude”. In this case the fatty acids would have 18-30 carbon atoms, and the final stage of the synthetic pathway would clip off the oxygen atoms to create pure hydrocarbons. This biocrude could be fed directly into existing oil refineries, without any need to modify them.

These firms, however, have one other competitor. His name is Craig Venter. Dr Venter, a veteran of biotechnological scraps ranging from gene patenting to the private human-genome project, has been interested in bioenergy for a long time. To start with, it was hydrogen that caught his eye, then methane—both of which are natural bacterial products. But now that eye is shifting towards liquid fuels. His company, modestly named Synthetic Genomics (and based, unlike the others, on the east side of America, in Rockville, Maryland), is reluctant to discuss details, but Dr Venter, too, is taken with the pharmaceutical analogy. Indeed, he goes as far as to posit the idea of clinical trials for biofuels—presumably pitting one against another, perhaps with petroleum-based products acting as the control, and without the drivers knowing which was which.

Whether biofuels will ever be competitive with fossil fuels remains to be seen. That will depend on a mixture of economics and politics. But the political rush to back ethanol, just because it is green and people have heard of it, is a mistake. Let a thousand flowers bloom, and see which one wins Dr Venter's Grand Prix.

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Clinical depression

Something in the way he moves

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From The Economist print edition

Depressed people move in a mathematically different way from other people

TO A man with a hammer, Mark Twain once said, everything looks like a nail. One hammer that has seen lots of use in recent years is the type of mathematical relationship known as a power-law distribution. Such distributions have been observed in phenomena as diverse as earthquake magnitudes, the sizes of personal fortunes, and the number of visits made to websites. They have not, however, shown up in diagnostic medicine—at least, not until now. In this week's *Physical Review Letters*, Yoshiharu Yamamoto of the University of Tokyo and his colleagues explain how the movements of people suffering from clinical depression can be described by a power law—and how this law is so different from that of healthy people that it looks truly diagnostic.

Like many mathematical functions, a power law plots two variables against each other to form a characteristic curve on a graph. Dr Yamamoto collected the data for his own particular power-law curves by fitting his experimental subjects—about half of whom were healthy, and half of whom had been diagnosed as having clinical (or "major") depression—with accelerometers. These devices measure how often someone changes his rate of movement by recording each time his acceleration exceeds a certain threshold.

The basic results confirmed a known feature of depressed people. The normal daily rhythm that would lead to a high, steady number of counts during daylight hours and low counts during the night was replaced by occasional bursts of activity. The surprise came when the team started plotting their results out on graphs.

The curves produced by plotting the lengths of low-activity periods against their frequency were strikingly different in healthy and depressed people. This reflects not inactivity by the depressed (though they were, indeed, less active) but a difference in the way that the healthy and the depressed spread their resting periods over the day. Depressed people experience longer resting periods more frequently and shorter ones less frequently than healthy people do.

That discovery may provide another way of diagnosing major depression—although if it were indeed to become a diagnostic tool, someone would first have to show that the pattern for those experiencing minor, non-clinical depression was not the same as that shown by the clinically depressed. Another diagnostic tool would be welcome, though, because current diagnoses often depend on self-reporting, which can be unreliable.

But Dr Yamamoto's result is not merely of practical significance. It also raises an interesting question about the nature of depression itself. That is because, when he looked for similar power-law curves in other areas, the one which he thought most resembled that exhibited by the depressed turned out to be the pattern of electrical activity shown by nerve cells isolated in a Petri dish and unable to contact their neighbours.

It is both unnerving and intriguing that a mental disorder which isolates people from human society, and which must surely have its origins in some malfunction of the nerve cells, is reflected in the behaviour of cells that have themselves been isolated. Maybe this is just a coincidence—another example of Mark Twain's hammer. But maybe it is not.

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Evolutionary psychology

More news from the savannah

Sep 27th 2007
From The Economist print edition

People seem to have "animal-monitoring modules" in their brains—which is bad news for road safety

WHICH is more dangerous, an elephant or a minivan? For most readers of this newspaper, the answer is going to be a minivan. From childhood, people in motorised civilisations are warned about the dangers of running into the road, taught the appropriate highway code and—when old enough—permitted to get behind the wheel only after having undergone a rigorous programme of training that ends with a formal examination.

Still Pictures

Spot the difference

You might think, therefore, that such people would be more aware of the movements of vehicles than of animals. But if you did think that, you would be wrong. An experiment just published in the *Proceedings of the National Academy of Sciences* by Joshua New of Yale University shows that people pay more attention to the activities of animals than to those of vehicles. That applies even among urban Westerners who rarely see an animal from one year's end to the next.

Dr New was testing a theory of mind originally developed by Leda Cosmides and John Tooby of the University of California, Santa Barbara, with whom he collaborated on the experiment. Dr Cosmides and Dr Tooby were among the first to break from the idea that the brain has evolved as a general-purpose problem-solving machine. They suggested that some tasks are so important and so universal that you would expect to find specially evolved "modules" to handle them, just as the senses are handled by specialised areas of the brain's cortex.

Dr Tooby and Dr Cosmides have found evidence to support the existence of such modules in areas of human relations such as the perception of fairness. Now Dr New has provided some more evidence, in a completely different area. Building on the observations of other researchers that there seem to be natural mental categories of objects that are represented separately in the brain (animal, plant, person, tool and topography are reasonably well-established examples), he wondered if people would respond in systematically different ways to members of those categories.

His experiment worked by showing volunteers pairs of photographs containing one or more objects from the five mental categories in question. The photos in each pair were identical except that one object had changed its orientation or had been removed altogether, and the volunteers had to work out what had changed.

The first thing Dr New looked at was whether the brain pays more attention to the sort of change that

might be expected, or to changes that are unexpected. On the face of it, either might have turned out to be the case. Paying attention to the expected is probably best for everyday existence. Noticing the unexpected, though, might save your life.

In this part of the experiment, the expected won out. The volunteers were better at detecting changes involving things that do routinely move—in other words, people and animals—than of those that would be expected to be static, such as plants and coffee mugs.

The question Dr New really wanted to address, though, was whether such expectations are learned or innate. For that, he included a class of object that his subjects would have learned, by experience, have a tendency to move, but which past evolution could have had no purchase on: motorised vehicles.

The answer was that changes concerning animals were significantly easier to detect than those concerning cars. In the most telling comparison, 100% of volunteers noticed the movement of an elephant in the African bush. Only 72% noticed the movement of a minivan in a similar piece of bush. And that was despite the fact that the image of the van was somewhat larger in the photograph than the image of the elephant, and that the minivan was red, not grey.

This highly honed ability to notice animal activity (it applies to small familiar animals, such as pigeons, as well as large unfamiliar ones, such as elephants) argues that an animal-monitoring module is innate in the brain. As, indeed, might be expected. Animals are important: small ones are supper; large ones are best avoided, lest they eat you or trample you to death. In other words, you can take the human out of the savannah. But you cannot take the savannah out of the human.

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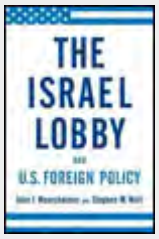
America's pro-Israel lobby

Powerful, but not that powerful

Sep 27th 2007
From The Economist print edition

The thesis that the Israel lobby was critical in persuading George Bush to invade Iraq doesn't quite stand up

The Israel Lobby and US Foreign Policy
By John J. Mearsheimer and Stephen M. Walt



Farrar, Straus and Giroux; 484 pages; $26; Allen Lane; £25

Buy it at
Amazon.com
Amazon.co.uk

Reuters

FROM the forged “Protocols of the Elders of Zion” in the 19th century to the charter of Hamas, the Palestinians' Islamist movement, a common claim by anti-Semites has been that Jews trick great powers into needless wars. That is why an article published in March 2006 by two American academics, John Mearsheimer and Stephen Walt, caused such outrage. Writing in the *London Review of Books*, they argued that the activities of Israel and its supporters were the “critical” reason for America's invasion of Iraq. George Bush, Dick Cheney and Donald Rumsfeld may have thought that they were acting in America's interests, but were in fact acting in Israel's. Like previous American governments, the Bush administration had been turned by clever lobbying into what Lenin would have called Zionism's useful idiots.

This startling thesis is, to say the least, provocative. Since it implies that American boys are dying in Iraq

for the sake of Israel, the authors must have known that it would stir up painful questions about the true loyalties of American Jews and therefore attract fiery criticism. But there is no evidence that Mr Mearsheimer and Mr Walt were motivated by any anti-Jewish prejudice. They say they want only to discuss a legitimate subject: the influence of the pro-Israel lobby on American foreign policy. Indeed, now that their article has grown into a book, they claim not only that they are not anti-Semitic but also that they are "pro-Israel", in the sense that "we support its right to exist, admire its many achievements, want its citizens to enjoy secure and prosperous lives, and believe that the United States should come to Israel's aid if its survival is in danger."

That a powerful pro-Israel lobby influences American policymaking in the Middle East, often for the worse, is indisputable. This book does a fair job of explaining how AIPAC, the American Israel Public Affairs Committee, along with like-minded lobbying groups and think-tanks, help to shape, and sometimes stifle, American thinking about the region. The authors have won plaudits for taking on this supposed "taboo" and enduring the inevitable opprobrium. Yet this portion of their argument is hardly groundbreaking: in Washington, the power of the lobby, so far from being a secret, is legendary. What is new is to accuse Israel's supporters of dragging America into Iraq. Here the authors are on much thinner ice.

Their thesis advances as follows. America and Israel enjoy an extraordinary special relationship. This cannot be because Israel is a strategic asset. Although there may have been a time during the cold war when Israel was a help, it has long since become a liability, because by supporting the Jewish state America alienates Arabs and makes itself into a target for terrorists.

Nor, they say, can American support be explained by some moral claim. Israel's existence is no longer in danger: far from being an underdog, it is the neighbourhood bully, denying statehood to the Palestinians and discriminating against its Arab minority. Since Israel is not useful to America and its behaviour is beastly, "something else must be behind the striking pattern of ever-increasing support". That something, the authors conclude, must be the Israel lobby. By the same token, the lobby is the something that explains Mr Bush's otherwise "deeply puzzling" decision to topple Saddam Hussein in 2003. But for the lobby, "the war would almost certainly not have occurred".

To contend that there can be no strategic or moral reason for Americans to support Israel is controversial on its own, but here at least the authors make a robust case. The same is not true of their attempt to blame Israel for the invasion of Iraq. The accusation is plain enough; but on further reading the clarity dissolves by stages into a muddle.

The muddle begins when the authors concede that those who pushed for the Iraq war genuinely expected it to benefit America as well as Israel. So the eye-catching implication in the headline—that Israel's supporters knowingly got America into a war that was in Israel's interest but not its own—is withdrawn in the fine print. Next, the authors admit that Israel, considering Iran the bigger threat, did not initiate the campaign for war against Iraq; it fell into line only after it realised that Mr Bush was already leaning that way, and that he would probably go on after Iraq to clobber Iran too. As for who persuaded Mr Bush to lean towards war, the authors say in a final confusing twist that the real driving force was not in fact the Israel lobby but "a small band of neoconservatives".

Now if the small band of neoconservatives and the Israel lobby were the same thing, this might begin to make some sense. But they are not. At most, the two groups overlap. Many neocons are Jewish and most are favourable to Israel, but there are some who are neither. And a lot of the people whom the authors assign to the Israel lobby, such as former Clinton administration officials like Dennis Ross and Martin Indyk, would probably have conniptions on being called neocons.

How plausible, anyway, is blaming the war on the neocons? The Walt-Mearsheimer argument is that a lot of the neocons favoured an invasion even before 2001, but only after September 11th could they talk Mr Bush round, by offering a ready-made approach to the world at a time when he was trying to make sense of an unprecedented disaster. All the familiar suspects are marched out, among them Paul Wolfowitz and Douglas Feith, then at the Pentagon; Scooter Libby at the White House; John Bolton at State; academics such as Bernard Lewis at Princeton and Fouad Ajami at Johns Hopkins University; journalists such as Charles Krauthammer and Bill Kristol; and think-tankers such as Kenneth Pollack at Brookings.

Others did their bit

These people, it is true, argued in favour of the war. But so did others who were neither neocons nor

Jewish nor any part of the Israel lobby—Britain's Tony Blair, say. The book makes no attempt to provide the principal actors' view of how the decision-making unfolded inside the Bush administration. And without a detailed account of this, the authors have no hard evidence on which to hang their central claim that the neocons' voices were the decisive ones.

As the Pentagon's number two, Mr Wolfowitz's views no doubt counted for something. But his boss, Mr Rumsfeld, was not a shrinking violet, no neocon and harboured no special love of Israel. Mr Lewis, a Jewish historian of Islam, may have enjoyed the odd meeting with Mr Bush, but it can be assumed that his vote did not outweigh that of Vice-President Cheney, a hard-headed “realist”. What tipped the balance for the president must be conjecture, but even after 484 pages it is hard to agree with Messrs Walt and Mearsheimer that it was Israel's interests that did it.

At one point the authors complain that Israel and its supporters in America are now rewriting history “to absolve Israel of any responsibility for the Iraq disaster”. But it was not Israel that invaded Iraq. Their own book feels like an attempt to absolve America of responsibility for a decision it took by, and for, itself.

The Israel Lobby and US Foreign Policy.
John J. Mearsheimer and Stephen M. Walt.
Farrar, Straus and Giroux; 484 pages; $26; Allen Lane; £25

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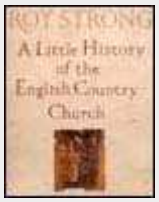
Country churches

Bruised survivors

Sep 27th 2007
From The Economist print edition

HERE is a plea to save the English parish church, still standing after the convulsions of the Reformation, the English civil war and social alteration. Roy Strong would like to see the churches preserved, just as he strove to preserve English country houses and country gardens while he was director of the Victoria and Albert Museum in London in the 1970s.

A Little History of the English Country Church
By Roy Strong



Jonathan Cape; 264 pages; £16.99

Buy it at
Amazon.com
Amazon.co.uk

Early worship by Christians was deeply spiritual, ritualistic and physical. Images of saints adorned the walls of the church, where parishioners came for all the sacraments that represented the life cycle of ordinary people. Feast days and saints' days were many, the congregation stood during services, coming and going, talking and kneeling. The building boom of elaborately beautiful churches reached its height in the 14th and 15th centuries.

When coffins had to be recycled

The Reformation began in the 1530s, but lasted way beyond Thomas Cromwell's dissolution of the monasteries, with the government of evangelical Edward VI continuing the work of stripping the churches and banning ritual. Worshippers were ordered to cease their devotions to images or relics, or "kissing or licking the same". What the parishioner lost was enormous. The church was the meeting place for the community as well as a place of worship. Churchgoers were left to stare at a whitewashed wall, or an empty niche where a statue of the Virgin once stood. People were forced to give up religious ceremonies practised for 1,000 years. It is surprising how little rebellion there was against what Sir Roy likens to China's Cultural Revolution.

Yet these upheavals were nothing, Sir Roy claims, in comparison to the puritanical purges of the civil war, during the mid-1600s, which devastated not only the fabric of the church but also the social communion of the congregation. Moreover, the loss of income, particularly from banning the making and selling of church ales, meant that the buildings started to crumble. The book's illustrations show churches stripped bare and others in which the gaudy tombs of the elite have replaced images of saints. A reusable coffin from the civil-war period (shown above) is an unfortunate early sign of recycling.

The Georgian era was not just a peaceful one for the church, but also an apparently lackadaisical one. Churches were restored and "exuded the light and clarity of the age of Enlightenment". Most welcome of all, there was a return to music, introduced gently, so as not to bear the faintest whiff of popery. The aristocracy ran the parish church, their tenant farmers and workers making up the congregation. Plaques and family pews proliferated; the gentry even had their own fireplaces in some churches. They nearly always grabbed the job of clergyman for their sons. One historian called it "the age of negligence", as the clergy distanced themselves from the congregation and absented themselves from their pastoral ministry.

Sir Roy ends with the church facing an uncertain future in the 21st century. He does indeed cover the whole story in a relatively "little" book. For his account of the Reformation, he draws from Eamon Duffy's "The Stripping of the Altars" (Yale, 1992). And this is ideal further reading for those keen to find out more.

A Little History of the English Country Church
By Roy Strong
Jonathan Cape; 264 pages; £16.99

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New fiction

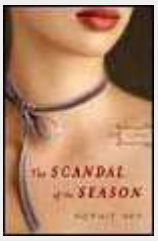
At ev'ry word a reputation dies

Sep 27th 2007
From The Economist print edition

THE picture that Sophie Gee paints of London in 1711, at least for the wealthy or well-born, is a whirl of hedonism and heady politics. Levees, theatricals and masquerades are the scenes of outrageous flirting. Hogmen drive their pigs through the Haymarket, splashing mud as they brush past ladies with high hair and silk stockings on their way to entertainments.

At court, gossip rages about the succession to the childless Queen Anne who, at 46, has suffered 18 miscarriages and is nearing the end of her reign. Meanwhile, closet Jacobites remember the anti-Catholic pogroms that sent them into rural exile at the end of the previous century; in the shadows they plot the queen's assassination and the coronation of a Catholic king. Jonathan Swift is at the height of his satirical powers and the newly born *Spectator* is London's most fashionable publication.

The Scandal of the Season
By Sophie Gee



Scribner; 352 pages; $25. Chatto & Windus; 291 pages; £12.99

Buy it at
Amazon.com
Amazon.co.uk

Arabella Fermor and Robert, Lord Petre, Ms Gee's handsome and wilful heroes, lead this pursuit of pleasure. In their more sensible moments, she knows her virginity is essential to making a good match while he recognises that his family name dictates he must marry for money and not for love. Nonetheless, they throw all good sense to the winds and begin a passionate illicit affair. Fortunes change and reputations are rapidly imperilled.

Alexander Pope, a country poet and a hunchback, observes and records the scene. Yet it would be wrong to regard this, her first novel, as simply a prequel of Pope's most famous poem, “The Rape of the Lock”. Ms Gee, an Australian-born assistant professor of English at Princeton University, writes well about sex and is excellent at parsing the emotions that rage behind the masks. Secret ambition, hidden hurts, put-downs lobbed by the socially insecure; all of these appear as finely graded shades sketched in among her palette of primary colours.

For anyone who enjoyed “Shakespeare in Love” or “Dangerous Liaisons”, “The Scandal of the Season” is a treat; rich and satisfying, but unlike the fine chocolate creams it could so easily resemble, one that does you no harm.

The Scandal of the Season.
By Sophie Gee.
Scribner; 352 pages; $25. Chatto & Windus; 291 pages; £12.99

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The Marshall Plan

From America with love

Sep 27th 2007
From The Economist print edition

SIXTY years after its birth was announced by George Marshall, a general who in 1947 was America's secretary of state, the Marshall Plan remains oddly relevant. With American foreign policy scraping rock bottom, it is a reminder of a time when the country's popularity was at an all-time high—and demonstrates that the policy of promoting democracy and a free-market economy in other parts of the world can indeed sometimes work.

Greg Behrman's book is the first comprehensive history of the Marshall Plan since the end of the cold war. In the 1950s there were triumphalist accounts of the plan's achievements: between 1947 and 1952, it helped Western Europe to recover by providing some $13 billion-worth of technical and economic aid. But in the following decades the plan came under fire, mostly from American and British historians. Revisionist writers claimed that it was purely self-interested and its success overrated. Some argued that without it America could have agreed on a post-war settlement with the Soviet Union and thus avoided the horrors of the cold war.

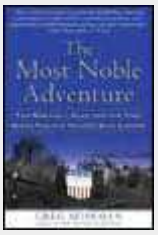
Mr Behrman agrees that the Marshall Plan was certainly in America's strategic interest. America needed Europe as a political ally and a trading partner able to hold its own. In the immediate post-war years Europe was neither. Communist parties in Italy, France and elsewhere went from strength to strength as people fell out of love with capitalism. And Europe had a ballooning balance-of-payment problem with the United States.

But the plan, argues Mr Behrman, was cleverly designed and its positive effect hard to overstate. In notable contrast to the ill-fated reconstruction efforts in Iraq, America's best and most capable men ran the programme in partnership with European governments. Mr Behrman claims that the plan not only helped the continent to get back on its economic feet but gave it a much-needed psychological and political boost. Europeans, with their confidence returning, went forth, multiplied and buried many a hatchet. Rising fertility and Europe's integration became the main motors of the continent's economic boom.

Academic historians tend to patronise authors like Mr Behrman who write easily and popularise history with their fluid narratives of dramatic events. Yet his book is meticulously researched. It is a celebratory work, written by someone who has become disillusioned by what is going on today. For Americans in need of a confidence booster, Mr Behrman's fond look at what he considers to have been one of America's finest hours is just the job.

The Most Noble Adventure: The Marshall Plan and the Time When America Helped Save Europe.
By Greg Behrman.
Free Press; 464 pages; $27

The Most Noble Adventure: The Marshall Plan and the Time When America Helped Save Europe
By Greg Behrman



Free Press; 464 pages; $27

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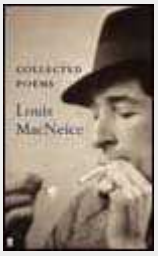
Louis MacNeice's centenary

A ticket for the peepshow

Sep 27th 2007
From The Economist print edition

THE literary identity of Louis MacNeice, the Northern Irish poet born 100 years ago this month, used to be subsumed within the collective name of Macspaunday. Coined by another poet, Roy Campbell, the name refers to the generation of politically-committed 1930s poets: MacNeice, Stephen Spender, W.H. Auden and C. Day-Lewis. But a new edition of MacNeice's collected poems, edited by Peter McDonald and published earlier this year, confirms the poet's unique voice.

Collected Poems
By Louis MacNeice



Faber and Faber; 400 pages; £30

Buy it at
Amazon.com
Amazon.co.uk

The manner in which a poet gets published can have a huge effect upon his or her reputation. The last edition of MacNeice's collected poetry was published in 1966, three years after he died. It did him less than justice. Poems were shifted about—all the long poems were grouped together, for example—making it impossible to gain a clear view of the chronological development of his writing. In this new, more coherent collection, the poems are printed in groupings that correspond roughly to the way in which they appeared in volumes published during MacNeice's lifetime, allowing the reader to chart the often serendipitous workings of a poet's mind.

MacNeice was the precocious son of a Church of Ireland clergyman, growing up in an often chilly Carrickfergus rectory. He worked for many years at the BBC, producing plays, many of them his own. He died, unexpectedly, at 55 from pneumonia: he had been gathering sound-effects in a damp cave for some future broadcast.

His poetry is garrulous, intellectually incisive and adjectivally rich. In a century that increasingly valued free verse, MacNeice stuck to stricter measures, rhyming and scanning with enduring skill. He was a fine social commentator in verse: “Autumn Journal”, his long poem published on the eve of the second world war is, like the best of Byron's “Don Juan”, as readable as it was on the day it was published.

Some of his greatest work came in the three volumes published during his last decade. The longer poems of his middle period can be ponderous and too philosophical by half. But the best of these late poems—taut lyrics with lacings of humour—are deft and crisp. Here is a tiny sample from “Greyness is All”:

> If black were truly black not grey
>
> It might provide some depth to pray
>
> Against and we could hope that white
>
> Would reach a corresponding height

“I write poetry”, he once confessed, “because I enjoy it, as one enjoys swimming or swearing, and also because it is my road to freedom and knowledge.” That gives us some measure of the man: an Ulster intellectual to be sure, but one who was happily engaged with the world beyond the window.

Collected Poems.
By Louis MacNeice.
Faber and Faber; 400 pages; £30

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J.M.W. Turner

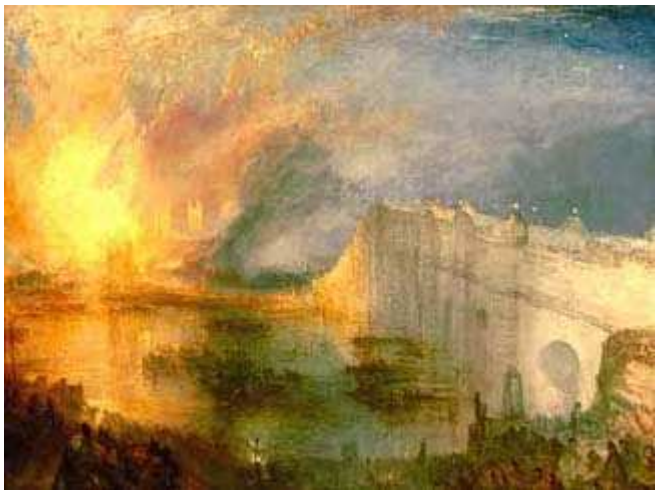
What incandescences! What dazzle!

Sep 27th 2007
From The Economist print edition

Excellent examples of the painter's complete works come together in Washington

THE Turner blockbuster at the National Gallery of Art in Washington was originally scheduled for 2005 but had to be postponed. His paintings had become so valuable that lenders would not send them across the Atlantic until Congress agreed to double the indemnity for international loan exhibits. Congress did so in 2006 and the show opens on October 1st. The wait was worth it.

Philadelphia Museum of Art



London's burning

This is the first full retrospective of J.M.W. Turner's oils and watercolours to be held in the United States. It shows a lifetime of painting from his start as a teenage prodigy in 1790 to his last days in 1850 as the Grandest of Old Men. There have, naturally, been lesser exhibitions. In 1966, for instance, the Museum of Modern Art in New York set out to show that Turner's use of light and colour in his late paintings was a forerunner of the famous and fashionable school of Abstract Expressionism. It was intended as a compliment, and had the desired effect. Having seen it, Mark Rothko joked, “That chap Turner learned a lot from me.”

Turner is synonymous with the Tate Gallery in London, which holds the vast part of the repository that he and his family bequeathed to the nation. Of his extensive output of 500 oils (300 of them finished), 400 remain in Britain, plus watercolours in the thousands. Of the Turners that got away, by far the most are to be found in the United States—and they are sometimes the only works by a British artist in eminent collections.

Franklin Kelly, the curator of American and British art at the National Gallery of Art, suspects that the Tate's collection of Turners is so wide and deep that its curators felt a sense of obligation. In any event, Tate Britain responded freely, providing 86 of the 164 entries in the catalogue. London's National Gallery, also a beneficiary of Turner's bequest, was less generous, refusing permission to travel for two of its masterpieces: “Rain, Steam, Speed”, which shows a train battling through bad weather, and “The Fighting Temeraire”, voted Britain's most popular painting not long ago. Those apart, excellent examples of the complete works are hanging on the walls in Washington.

The two oils that Turner painted of the burning of the Houses of Parliament in 1834, which belong to museums in Philadelphia and Cleveland, are reunited splendidly with the nine sketches he made on the night. Putting them together again was not easy. Both American museums were reluctant lenders: “It took a little persuading,” says Mr Kelly. The outcome is a great strength of this show.

Turner was a barber's son from Maiden Lane in Covent Garden, a uniquely talented autodidact who was already producing accomplished watercolours in his mid-teens. Talent was harnessed to vaulting ambition. His first oil appeared in the Royal Academy when he was just 21. Titled “Fishermen at Sea”, it is a remarkably mature painting; illuminated by moonlight and a lamp on the boat, it seems to move with the swell of the sea. From the start, Turner delighted in changeable weather: a snowstorm, for example, overwhelms Hannibal as he crosses the Alps.

He was already prosperous in his mid-20s and canny with money. He dressed like a coachman and his conversation was rarely fluent. His lectures at the Royal Academy were hard to follow. But he marketed his work shrewdly, selling the oils at high prices—never less than 250 guineas ($40,000 in today's money)—and popularised it by selling engravings.

Nor was Turner a modest man. He greatly admired Claude Lorrain, a French painter of classical landscapes, but he wanted his own work, such as “The Decline of Carthage”, to hang alongside a similar work by Claude, as if to prove that the two were of equal worth. He was technically bold too, an innovator who created controversy by priming his canvasses with white paint rather than the traditional brown. He wanted his canvasses to look as bright as his watercolours.

His most rewarding subject became the phases of the sun: rising, shining and setting. In an urban landscape called “Mortlake Terrace” the intensity of the sunlight seems to dissolve the river wall. His critics, and they were always hovering, claimed he was intoxicated by light: they said he had “yellow fever”. Henri Matisse's whimsical explanation of Turner's exuberant colours was that he lived in a cellar and was allowed to open the shutters once a week—“and then, what incandescences! What dazzle! What jewels!”

Some 150 years after his death, Turner's abstraction has become more fashionable than his realism. At a sale of watercolours at Sotheby's, the hot money went on the more abstract work, allowing the National Gallery of Art to pick up, after the sale and at less than Sotheby's low estimate, a realistic piece called “Oberwesel”. It hangs in pride of place in a room of watercolours.

As he grew old, Turner's world turned, and he turned with it. He grasped the significance of steam taking over from the power of wind and horses. His steamships issue black smoke, adding to the range of colours in his sky. The other change was in taste, away from the conviction that painters were literal interpreters of nature. Impressionism was not far off and Turner had it in his mind's eye. But criticism hurt and sales of his paintings fell away in his last decade. Aged 76, he succumbed to a rare moment of self-pity: “So I am to become a nonentity, am I?” Hardly.

The Turners are in Washington till January 6th 2008. They go to the Dallas Museum of Art in February 2008 and New York's Metropolitan Museum in July 2008

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Bip

Sep 27th 2007
From The Economist print edition

Bip, the world's quietest clown, died on September 22nd, older than he seemed

Camera Press

WHEN the spotlight faded on Bip last week, leaving not even a hand or a flower illuminated, it caused only a sigh of surprise. Bip had tried many times to put an end to himself. He would cut his wrists with a blade, nicking and wincing away from it, in case his copious blood gushed over his pure white sailor's trousers. He would shake out into his palm a handful of pills from a bottle, open his wide red mouth, and fail to swallow them. Stepping on a chair that wobbled under him, he would knot a noose round his scrawny neck, test it, yank it, gyrate his neck like a pigeon and step out into the void. Nothing worked. He went on living.

That he should wish to die was also not surprising. Often he was kept, crouching or standing, in a small cage on the stage. One by one he ran his hands along the bars until, with all his strength, he pushed two apart and jumped nimbly out; but then, right ahead of him, behind him, all round him, he found his palms flattening against a wall of glass. Each cage was contained in another. His hands often became birds, flickering and fluttering out of his sleeves, and he made them fly swiftly from their prisons, laughing as they flew. But the bars soon closed again round him.

Like all human beings, he dreamed; but his dreams were rarely successful. He hunted butterflies with a darting net, only to break their wings. He plucked flowers, then picked their petals out, and was surprised they died. When he tried to tame lions, they ate him, scorning the thin hoop he flourished in their direction. He walked against wind and made no progress. His black-ringed eyes and black-lined eyebrows registered sadness, wonder, perplexity and terror. But he did not know what malevolence was. He was, said the man who knew him best, a romantic, a Don Quixote tilting at windmills, and “alone in a fragile world filled with injustice and beauty”.

To the naked eye Bip had only the clothes he stood up in: trousers, jacket, soft ballet shoes, striped jersey, and a crumpled opera-hat topped with a red flower. His lean limbs and white face were his only language. The spotlight played on him, and nothing else. Yet the silence around him was filled with chairs, tables, animals, trunks and escalators. It swarmed with lounging waiters, officious policemen, dog-walkers pulled to right and left of the path, old ladies knitting. Railway trains roared through, and Bip, bouncing and swaying in his seat, struggled to keep his suitcase from falling out of the rack. The sea flooded in, bringing a ship that could take Bip on his constant travels to America, to Japan and to Australia, and he staggered manfully up and down the pitching deck.

He was born, some said, in the Paris acting school in 1947, bred by Jean-Louis Barrault in “Les Enfants du Paradis” and raised at the tiny Théâtre de Poche in Montparnasse. Others made him far older, dating

from the Athenian drama and the Japanese *noh* plays, via the *commedia dell'arte* and Charlie Chaplin. Parts of all this went into the making of him, as well as the imaginings of the young Marcel Marceau, in Strasbourg in the 1930s, trying on his father's long trousers and contorting his body to make his friends laugh. His name, Bip, came loosely from Dickens's "Great Expectations". His hat, flower and sailor-costume solidified over time.

Becoming the tempest

He never spoke. Mr Marceau's father died in 1944 in Auschwitz, and Bip's silence was a tribute to all those who had been silenced in the camps. It was a recollection, too, of the necessary muteness of resistance fighters caught by the Nazis, or quietly leading children across the Swiss border to safety, as Mr Marceau had done. In one of his acts, "Bip Remembers", the sad-faced clown relived in mime the horrors of the war and stressed the necessity of love. In another, his hands became good and evil: evil clenched and jerky, good flowing and emollient, with good just winning.

His alter ego, who promoted him as Everyman all over the world, sometimes spoke for him. "Bip", said Mr Marceau, "is a hero of our time. His gaze is turned not only towards heaven, but into the hearts of men." Mr Marceau compiled his biography and painted his portrait, colouring him blue, rose and mauve as he walked through the city streets and sailed among the stars. He wrote a poem for him:

> A silent, fragile hand has drawn in space a white flower emptied of its blood.
>
> Soon it will open, blossom out.
>
> Soon, though faded, bloom again.

Mr Marceau was garrulous and gregarious where Bip was not. He ran his own mime company for almost 60 years, staging *mimodrames* when they were completely out of fashion, and started an international school in Paris to teach his skills to others. No mime artist could touch him. Hollywood loved him. Mr Marceau gave interviews frequently, sometimes in Bip's clothes, explaining him to the crowd: "If I do this, I feel that I am a bird. If I do this, I am a fish. And I feel that, if I do this, it's like a song...To mime the wind, one becomes a tempest. Mime expresses...the soul's most secret aspiration."

Bip simply moved on the stage, bird, fish, song, wind, tempestuously without a word, until he too became invisible.

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Overview

Sep 27th 2007
From The Economist print edition

The misery in **America's housing market** continues to grow. Sales of existing homes fell by 4.3% in August, according to the National Association of Realtors. The stock of unsold single-family homes rose to 9.8 months of sales, the highest since 1989. The S&P/Case-Shiller house-price index for the 20 largest cities fell by 3.9% in the year to July.

Durable-goods orders in **America** fell by 4.9% in August, after having seen a sharp rise in July. The Conference Board's index of consumer confidence dropped to a 22-month low in September.

GDP in **Britain** rose by 3.1% in the year to the second quarter, revised from 3.0%. The current-account deficit narrowed from £10.6 billion ($20.8 billion) to £9.1 billion (2.6% of GDP) in the second quarter.

Industrial orders in the **euro area** fell by 4% in July following a 4.5% rise in June. A composite measure of activity in manufacturing and services suffered its biggest one-month decline for six years. The index, based on surveys of purchasing managers, fell from 57.4 to 54.5 in September.

Business confidence in **Germany** is at its lowest level for more than a year. The Ifo index of the business climate fell for a fifth consecutive month, to 104.2 in September.

Norway's central bank increased its benchmark interest rate by 0.25 percentage points, to 5%, because of strong domestic demand.

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Output, prices and jobs

Sep 27th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+1.9 Q2	+4.0	+2.0	+2.6	+1.7 Aug	+2.0 Aug	+3.8	+2.7	4.6 Aug
Japan	+1.6 Q2	−1.2	+2.4	+2.2	+3.2 Jul	nil Jul	+0.3	nil	3.6 Jul
China	+11.9 Q2	na	+10.5	+9.6	+17.5 Aug	+6.5 Aug	+1.3	+3.0	9.5 2006
Britain	+3.1 Q2	+3.3	+2.9	+2.4	+0.9 Jul	+1.8 Aug**	+2.5	+2.4	5.4 Jul††
Canada	+2.5 Q2	+3.6	+2.5	+2.7	+0.3 Jun	+1.7 Aug	+2.1	+2.4	6.0 Aug
Euro area	+2.5 Q2	+1.4	+2.7	+2.3	+3.7 Jul	+1.8 Aug	+2.3	+2.0	6.9 Jul
Austria	+3.7 Q2	+4.0	+2.9	+2.6	+5.3 Jul	+1.7 Aug	+1.8	+1.8	4.3 Aug
Belgium	+2.9 Q2	+2.5	+2.6	+2.3	+3.3 Jul	+1.1 Aug	+1.6	+1.8	11.9 Aug‡‡
France	+1.3 Q2	+1.3	+2.0	+2.2	+2.6 Jul	+1.2 Aug	+1.9	+1.5	8.0 Jul
Germany	+2.5 Q2	+1.0	+2.8	+2.3	+4.4 Jul	+1.9 Aug	+1.7	+2.0	8.8 Sep
Greece	+4.1 Q2	na	+3.8	+3.2	+3.5 Jul	+2.5 Aug	+3.5	+2.6	8.2 Jun
Italy	+1.8 Q2	+0.5	+2.0	+1.7	−0.2 Jul	+1.6 Aug	+2.2	+1.9	6.0 Q2
Netherlands	+2.6 Q2	+1.2	+2.7	+2.6	+4.1 Jul	+1.1 Aug	+1.7	+1.8	4.5 Aug††
Spain	+4.0 Q2	+3.8	+3.7	+2.8	+4.0 Jul	+2.2 Aug	+3.7	+2.7	8.0 Aug
Czech Republic	+6.0 Q2	+5.7	+5.7	+4.2	+11.5 Jul	+2.4 Aug	+3.1	+2.6	6.4 Aug
Denmark	+0.6 Q2	−1.6	+2.1	+2.0	nil Jul	+1.1 Aug	+2.0	+1.8	3.3 Aug
Hungary	+1.2 Q2	+0.2	+2.4	+3.0	+9.4 Jul	+8.3 Aug	+3.5	+7.5	7.2 Aug††
Norway	+3.9 Q2	+3.5	+3.1	+2.6	+2.9 Jul	+0.4 Aug	+1.9	+0.8	2.5 Jul††
Poland	+6.7 Q2	na	+6.5	+5.1	+9.0 Aug	+1.5 Aug	+1.6	+2.3	12.0 Aug‡‡
Russia	+7.8 Q2	na	+6.7	+6.2	+3.8 Aug	+8.7 Aug	+9.7	+7.8	5.7 Aug‡‡
Sweden	+3.5 Q2	+3.7	+3.5	+3.2	+5.2 Jul	+1.8 Aug	+1.6	+1.8	4.8 Aug‡‡
Switzerland	+2.8 Q2	+3.0	+2.4	+2.1	+9.8 Q2	+0.4 Aug	+1.5	+0.7	2.6 Aug‡‡
Turkey	+3.9 Q2	na	+5.6	+5.3	+3.9 Jul	+7.4 Aug	+10.3	+8.7	8.9 Q2‡‡
Australia	+4.3 Q2	+3.8	+3.8	+3.4	+5.5 Q1	+2.1 Q2	+4.0	+2.4	4.3 Aug
Hong Kong	+6.9 Q2	+8.2	+6.2	+5.2	−2.3 Q2	+1.6 Aug	+2.5	+1.9	4.2 Aug††
India	+9.3 Q2	na	+8.4	+7.9	+7.1 Jul	+6.5 Jul	+6.7	+5.7	7.6 2006
Indonesia	+6.3 Q2	na	+6.3	+6.4	+3.9 Jul	+6.5 Aug	+14.9	+6.1	9.8 Feb
Malaysia	+5.7 Q2	na	+5.9	+5.7	+2.1 Jul	+1.9 Aug	+3.3	+2.1	3.4 Q1
Pakistan	+6.6 2006§§	na	+6.4	+5.9	+6.0 Jun	+6.5 Aug	+8.9	+6.7	6.2 2006††
Singapore	+8.6 Q2	+14.0	+6.2	+4.4	+13.8 Aug	+2.9 Aug	+0.7	+0.9	2.4 Q2
South Korea	+5.0 Q2	+7.4	+4.9	+5.2	+14.3 Jul	+2.0 Aug	+2.7	+2.3	3.2 Aug
Taiwan	+5.1 Q2	na	+4.4	+4.6	+10.2 Aug	+1.6 Aug	−0.6	+0.9	3.9 Aug
Thailand	+4.4 Q2	+5.2	+4.6	+5.0	+7.2 Jul	+1.1 Aug	+3.8	+2.0	1.6 Jun
Argentina	+8.7 Q2	+8.8	+7.3	+5.5	+0.1 Aug	+8.7 Aug	+10.7	+9.1	8.5 Q2‡‡
Brazil	+5.4 Q2	+3.2	+4.6	+4.3	+6.8 Jul	+4.2 Aug	+3.8	+3.5	9.5 Aug‡‡
Chile	+6.1 Q2	+6.5	+6.1	+5.1	+4.0 Jul	+4.7 Aug	+3.8	+3.7	7.0 Jul†††‡‡
Colombia	+6.9 Q2	+4.4	+6.6	+5.8	+12.4 Jul	+5.2 Aug	+4.7	+5.6	11.1 Jun‡‡
Mexico	+2.8 Q2	+5.3	+2.9	+3.2	+2.4 Jul	+4.0 Aug	+3.5	+4.0	3.9 Aug‡‡
Venezuela	+8.9 Q2	na	+5.6	+3.9	+11.2 Jun	+15.9 Aug	+14.9	+18.7	8.4 Q2‡‡
Egypt	+7.4 Q1	na	+7.0	+7.3	+10.5 2006	+8.5 Aug	+8.9	+8.4	9.0 Q1‡‡
Israel	+4.4 Q2	+6.1	+5.1	+4.5	+3.1 Jul	+1.0 Aug	+2.2	+0.3	7.6 Q2
Saudi Arabia	+4.3 2006§	na	+4.8	+5.6	na	+3.8 Jul	+2.2	+3.4	na
South Africa	+5.0 Q2	+4.5	+4.8	+5.2	+3.1 Jul	+6.7 Aug	+5.4	+5.8	25.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+7.6 Q2	na	+7.9	+5.8	+4.4 Jul	+5.7 Aug	+5.0	+6.0	5.4 Jul
Finland	+4.7 Q2	+3.8	+3.9	+2.7	+0.5 Jul	+2.3 Aug	+1.9	+1.4	6.9 Aug
Iceland	+2.5 Q2	+9.1	+1.2	+1.6	+7.6 2006	+4.2 Sep	+7.6	+4.8	0.9 Aug‡‡
Ireland	+7.5 Q1	+20.1	+4.8	+3.4	+13.9 Jul	+4.8 Aug	+4.4	+4.7	4.7 Aug
Latvia	+11.3 Q2	na	+9.6	+7.5	+1.8 Jul	+10.1 Aug	+6.8	+8.8	5.6 Jul
Lithuania	+8.0 Q2	+8.2	+7.8	+6.9	na	+4.6 Aug	+4.2	+4.6	2.8 Aug
Luxembourg	+6.2 Q1	+6.6	+5.2	+4.3	+4.0 Jun	+1.9 Aug	+2.8	+2.2	4.1 Jul‡‡
New Zealand	+2.7 Q1	+2.5	+2.8	+3.1	nil Q1	+2.0 Q2	+4.0	+2.4	3.6 Q2
Peru	+8.4 Jul	na	+7.1	+5.5	+12.1 Jul	+2.2 Aug	+1.9	+1.2	8.2 Jul‡‡
Philippines	+7.5 Q2	+7.1	+6.0	+5.6	+0.6 Jul	+2.4 Aug	+6.3	+2.9	7.8 Q3‡‡
Portugal	+1.6 Q2	+1.7	+1.8	+2.1	+1.0 Jul	+2.1 Aug	+2.9	+2.4	7.9 Q2‡‡
Slovakia	+9.4 Q2	na	+8.0	+6.0	+18.9 Jul	+2.3 Aug	+5.1	+2.7	8.2 Aug
Slovenia	+5.9 Q2	na	+5.6	+4.6	+8.9 Jul	+3.5 Aug	+3.2	+3.0	7.6 Jul‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.1% in Aug. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

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The Economist commodity-price index

Sep 27th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Sep 18th	Sep 25th*	% change on one month	% change on one year
Dollar index				
All items	209.5	216.5	+8.1	+25.7
Food	194.0	197.7	+11.7	+45.5
Industrials				
All	229.5	240.9	+4.5	+9.9
Nfa†	161.9	166.8	+5.4	+23.3
Metals	266.4	281.4	+4.3	+6.1
Sterling index				
All items	159.1	162.9	+7.8	+18.2
Euro index				
All items	139.7	141.8	+4.4	+12.8
Gold				
$ per oz	715.25	728.65	+10.0	+23.1
West Texas Intermediate				
$ per barrel	82.07	79.53	+10.7	+30.1

*Provisional †Non-food agriculturals.

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Teachers' salaries

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From The Economist print edition

How much do rich countries value their schoolteachers? Wages are the largest single cost in education. If earnings from teaching are high compared with average incomes, then claims about the lofty value placed on education may have some substance. A new report from the OECD provides a useful gauge, by calculating primary teachers' pay relative to GDP per head. On this basis, teachers attract a premium over average incomes of around 25% in the OECD. Teaching in Turkey and South Korea has a very high status, with earnings more than double the average income per head. In Germany and Japan teachers are high up the pay scale, but they are somewhat less valued in Italy, France and America.

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Trade, exchange rates, budget balances and interest rates

Sep 27th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†‡	Currency units, per $ Sep 26th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−818.7 Jul	−793.2 Q2	−5.7	–	–	−1.6	4.72	4.61
Japan	+93.2 Jul	+192.6 Jul	+4.4	116	117	−2.5	0.73	1.65
China	+244.9 Aug	+249.9 2006	+10.7	7.52	7.90	−0.7	3.86	4.52
Britain	−158.6 Jul	−86.6 Q2	−3.3	0.50	0.53	−2.7	6.28	5.07
Canada	+47.9 Jul	+21.9 Q2	+1.6	1.01	1.11	0.6	3.97	4.40
Euro area	+29.2 Jul	+11.2 Jul	nil	0.71	0.79	−0.6	4.73	4.38
Austria	+1.1 Jun	+13.2 Q1	+2.9	0.71	0.79	−0.5	4.73	4.49
Belgium	+17.6 Jul	+12.5 Mar	+2.2	0.71	0.79	−0.1	4.79	4.54
France	−40.1 Jul	+15.8 Jul	−1.2	0.71	0.79	−2.5	4.73	4.47
Germany	+228.1 Jul	+192.3 Jul	+5.1	0.71	0.79	0.4	4.73	4.38
Greece	−47.8 Jun	−36.7 Jul	−10.5	0.71	0.79	−2.4	4.73	4.68
Italy	−16.3 Jul	−50.3 Jun	−2.3	0.71	0.79	−2.5	4.73	4.65
Netherlands	+49.0 Jul	+53.5 Q2	+7.9	0.71	0.79	0.6	4.73	4.47
Spain	−123.8 Jul	−122.3 Jun	−8.8	0.71	0.79	1.7	4.73	4.50
Czech Republic	+3.1 Jul	−4.5 Jul	−3.5	19.5	22.3	−4.1	3.49	4.52
Denmark	+4.8 Jul	+4.7 Jul	+2.1	5.28	5.87	3.8	4.90	4.49
Hungary	−1.9 Jul	−6.2 Q1	−5.2	178	215	−6.0	7.43	6.58
Norway	+53.3 Aug	+54.6 Q2	+14.2	5.51	6.50	18.9	5.43	4.95
Poland	−9.2 Jul	−12.6 Jul	−3.3	2.68	3.13	−2.2	5.09	5.69
Russia	+125.1 Jul	+77.7 Q2	+6.8	25.0	26.8	3.0	10.00	6.33
Sweden	+18.1 Aug	+29.7 Q2	+6.8	6.54	7.30	2.4	3.54	4.34
Switzerland	+11.1 Aug	+102.1 Q1	+16.1	1.17	1.24	0.3	2.75	2.97
Turkey	−55.6 Jul	−33.2 Jul	−7.3	1.22	1.50	−2.8	18.32	6.91§
Australia	−11.7 Jul	−47.1 Q2	−5.4	1.14	1.33	1.3	6.93	6.15
Hong Kong	−20.0 Jul	+25.3 Q2	+10.9	7.77	7.79	1.8	4.97	4.20
India	−67.9 Jul	−9.6 Q1	−1.4	39.7	45.9	−3.3	6.96	8.32
Indonesia	+42.2 Jul	+10.3 Q1	+2.3	9,161	9,210	−1.7	8.13	6.57§
Malaysia	+28.8 Jul	+25.9 Q1	+14.3	3.43	3.68	−3.1	3.62	5.06§
Pakistan	−13.6 Aug	−6.8 Q1	−4.5	60.7	60.6	−4.6	9.71	8.53§
Singapore	+38.1 Aug	+41.6 Q2	+24.0	1.50	1.59	0.3	2.56	2.75
South Korea	+20.0 Aug	+6.9 Jul	+0.4	921	944	0.5	5.34	5.48
Taiwan	+14.3 Aug	+28.3 Q2	+5.8	32.9	33.0	−1.9	2.60	2.66
Thailand	+9.5 Jul	+11.5 Jul	+3.5	34.2	37.5	−1.9	3.55	4.26
Argentina	+10.2 Aug	+7.4 Q2	+3.4	3.14	3.10	1.3	12.31	na
Brazil	+44.1 Aug	+10.6 Aug	+0.7	1.85	2.19	−2.3	11.18	6.16§
Chile	+24.4 Aug	+8.3 Q2	+3.3	512	537	8.0	5.76	5.06§
Colombia	−1.5 Jun	−4.1 Q1	−3.0	2,013	2,403	−0.2	8.88	6.10§
Mexico	−0.8 Jul	−7.0 Q2	−1.0	10.9	11.0	0.1	7.19	7.82
Venezuela	+23.8 Q2	+20.4 Q2	+9.3	2,147	2,755	−3.1	11.13	6.55§
Egypt	−14.1 Q1	+3.1 Q1	+2.3	5.59	5.74	−5.5	7.20	5.22§
Israel	−9.0 Aug	+7.8 Q2	+3.5	4.03	4.30	−1.1	4.25	5.18
Saudi Arabia	+146.6 2006	+98.9 2006	+23.3	3.74	3.75	18.7	5.10	na
South Africa	−9.2 Jul	−17.4 Q2	−6.2	6.94	7.65	0.5	10.15	8.41
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.0 Jul	−3.1 Jul	−16.3	11.1	12.3	3.2	5.20	na
Finland	+12.5 Jul	+12.3 Jul	+6.2	0.71	0.79	4.2	4.59	4.47
Iceland	−1.8 Aug	−3.7 Q2	−16.7	62.2	69.8	3.7	14.13	na
Ireland	+36.0 Jun	−10.6 Q1	−5.1	0.71	0.79	1.0	4.73	4.46
Latvia	−7.0 Jul	−6.0 Jul	−22.2	0.50	0.55	nil	11.50	na
Lithuania	−6.5 Jul	−4.3 Jul	−12.9	2.45	2.72	−0.5	5.64	na
Luxembourg	−5.6 Jun	+4.5 Q1	na	0.71	0.79	0.3	4.73	na
New Zealand	−4.4 Jul	−9.3 Q2	−9.8	1.34	1.52	4.9	7.20	6.20
Peru	+8.8 Jul	+2.8 Q2	+1.9	3.11	3.25	0.4	5.00	na
Philippines	−3.4 Jun	+6.4 Jun	+5.1	45.2	50.2	−1.1	6.94	na
Portugal	−23.3 Jun	−18.0 Jun	−8.6	0.71	0.79	−3.2	4.73	4.62
Slovakia	−2.8 Jul	−3.5 May	−4.5	24.0	29.4	−2.9	4.15	4.60
Slovenia	−2.4 Jul	−1.5 Jun	−2.6	0.71	0.79	−1.2	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

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Markets

Sep 27th 2007
From The Economist print edition

Markets

	Index Sep 26th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,878.2	+0.5	+11.4	+11.4
United States (S&P 500)	1,525.4	–0.2	+7.6	+7.6
United States (NAScomp)	2,699.0	+1.2	+11.7	+11.7
Japan (Nikkei 225)	16,435.7	+0.3	–4.6	–0.6
Japan (Topix)	1,576.0	+0.5	–6.2	–2.3
China (SSEA)	5,602.8	–1.1	+99.0	+106.8
China (SSEB, $ terms)	357.5	–0.6	+164.4	+174.7
Britain (FTSE 100)	6,433.0	–0.4	+3.4	+6.5
Canada (S&P TSX)	14,035.0	+0.7	+8.7	+26.4
Euro area (FTSE Euro 100)	1,370.5	–0.3	+7.2	+14.8
Euro area (DJ STOXX 50)	4,364.4	–0.6	+5.9	+13.5
Austria (ATX)	4,532.2	–1.9	+1.5	+8.8
Belgium (Bel 20)	4,286.9	–2.2	–2.3	+4.6
France (CAC 40)	5,690.8	–0.7	+2.7	+10.0
Germany (DAX)*	7,804.2	+0.7	+18.3	+26.7
Greece (Athex Comp)	5,103.5	+2.5	+16.1	+24.4
Italy (S&P/MIB)	40,071.0	–0.6	–3.3	+3.6
Netherlands (AEX)	539.4	–0.8	+8.9	+16.6
Spain (Madrid SE)	1,594.1	+0.2	+2.5	+9.8
Czech Republic (PX)	1,825.3	+2.5	+14.9	+22.9
Denmark (OMXCB)	472.6	+0.2	+11.4	+19.3
Hungary (BUX)	27,848.2	+1.7	+12.1	+20.3
Norway (OSEAX)	570.8	–0.3	+13.6	+28.2
Poland (WIG)	61,230.9	–2.1	+21.5	+32.0
Russia (RTS, $ terms)	2,049.5	+1.7	+1.2	+6.6
Sweden (Aff.Gen)	374.2	–2.0	+2.4	+7.5
Switzerland (SMI)	8,859.7	–1.6	+0.8	+5.4
Turkey (ISE)	54,245.8	+0.7	+38.7	+59.6
Australia (All Ord.)	6,491.4	+2.0	+15.0	+27.3
Hong Kong (Hang Seng)	26,430.3	+3.4	+32.4	+32.5
India (BSE)	16,921.4	+3.7	+22.7	+36.7
Indonesia (JSX)	2,361.0	+2.1	+30.8	+28.3
Malaysia (KLSE)	1,320.9	+1.8	+20.5	+23.7
Pakistan (KSE)	13,271.4	+1.1	+32.2	+32.8
Singapore (STI)	3,650.1	+1.6	+22.2	+24.9
South Korea (KOSPI)	1,919.3	+0.9	+33.8	+35.1
Taiwan (TWI)	9,257.5	+3.7	+18.3	+17.0
Thailand (SET)	844.4	+4.0	+24.2	+31.2
Argentina (MERV)	2,177.2	+2.9	+4.2	+1.6
Brazil (BVSP)	59,714.0	+4.3	+34.3	+53.5
Chile (IGPA)	14,358.1	+0.3	+16.0	+20.2
Colombia (IGBC)	10,420.0	–0.5	–6.6	+2.6
Mexico (IPC)	30,303.2	–0.7	+14.6	+13.3
Venezuela (IBC)	36,220.7	–5.5	–30.7	+8.0
Egypt (Hermes)	75,099.6	–1.1	+22.5	+25.2
Israel (TA-100)	1,095.4	+3.0	+18.8	+24.3
Saudi Arabia (Tadawul)	7,929.7	+0.6	–0.6	–0.2
South Africa (JSE AS)	29,812.4	nil	+19.7	+20.6
Europe (FTSEurofirst 300)	1,539.5	–0.6	+3.8	+11.2
World, dev'd (MSCI)	1,616.6	+0.4	+9.0	+9.0
Emerging markets (MSCI)	1,181.4	+3.1	+29.4	+29.4
World, all (MSCI)	407.3	+0.7	+10.7	+10.7
World bonds (Citigroup)	696.8	+0.4	+5.9	+5.9
EMBI+ (JPMorgan)	422.1	–0.1	+3.6	+3.6
Hedge funds (HFRX)	1,319.1	–0.1	+3.4	+3.4
Volatility, US (VIX)	17.6	20.0	11.6	(levels)
CDSs, Eur (iTRAXX)†	35.2	–7.5	+51.2	+61.9
CDSs, N Am (CDX)†	58.1	+0.7	+73.9	+73.9
Carbon trading (EU ETS) €‡	21.3	+0.9	+17.0	+25.3

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. ‡New series.

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Perceptions of corruption

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The poorest countries tend also to be the most corrupt, according to Transparency International. Its annual Corruption Perceptions Index is compiled from surveys of businessmen and country experts. This year's report brackets together New Zealand, Denmark and Finland as the least corrupt countries. Somalia and Myanmar suffer from the most corruption, defined as the abuse of public office for private gain. Conflict-ridden countries like Afghanistan, Iraq and Sudan also languish towards the bottom. Several African countries, including Namibia, the Seychelles, South Africa and Swaziland, improved their scores in the latest survey. But corruption is felt to have worsened in Austria, Bahrain, Jordan and Thailand.

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